THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION COMMITTEE A MET AT HENTY HOUSE, LAUNCESTON, ON MONDAY 9 MAY 2011.

PUBLIC NATIVE FOREST TRANSITION

Mr BOB RUDDICK, CHARTERED ACCOUNTANT, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Hall) **-** Welcome, Bob. Have you given evidence before?

Mr RUDDICK - No, I haven't.

CHAIR - I will remind you that you are protected by parliamentary privilege and that any comments you make outside the hearing may not be afforded that privilege. I think that you would have been sent some information and you would be au fait with that. The evidence is being recorded, we have Hansard here, and we have members of the media here as well. We do appreciate you coming in. You are from Ruddicks Chartered Accountants. We are talking basically about one term of reference, as you are aware, and that is the impact of a proposed transition out of native forest harvesting on the State of Tasmania.

I will hand it over to you and we will get started. If you would like to make a short opening statement and then the members will ask you some questions.

Mr RUDDICK - To give you some background, I have a chartered accounting practice and I am a consultant and also have been director of various privately owned timber companies within Tasmania, dealing both in the softwood and the hardwood sector. The forest industry is a very vital industry to Tasmania and the industry participants really need certainty as to the future resource that they have available to them. To date, I believe that they have negotiated well, over a long period of time, with the Tasmanian Regional Forest Agreement and, more recently in 2004, the Tasmanian Community Forestry Agreement. Both of these agreements did have an expectation of a reduction of use of native forest and a change of compositions of native forest into, of recent, more small-diameter logs. The industry has spent a lot of money in retooling for that expectation and has taken on a lot of debt as a result of this.

The industry at the moment is also subject to very substantial external factors with the Australian dollar being as high as it is, with the global financial crisis having a serious effect on the supply chain so far as chips are concerned. These have all put enormous pressure on the industry and make the industry economics quite difficult at the moment. I think the last thing that the industry needs is the uncertainty of supply arrangements, given that it has gone into very substantial expenditure over the last couple of years and it now needs certainty of knowledge of where its supply might be coming from into the future.

Mr WILKINSON - They had to ramp up the finances. Can you give us some indication as to why and how much have they ramped up?

Mr RUDDICK - The reason is that the Tasmanian Community Forest Agreement required a transition out of old-growth logs into regrowth. Regrowth are a smaller-diameter log and therefore your entire milling structure has to be changed to pay for those types of milling arrangements. Therefore the Tasmanian Community Forest Agreement had with it the Tasmanian Community Forest Development Funds and they were assigned for that retooling. Most of the industry was only able to access $1 for every $3 they spent. I have two clients that are within that industry. The combined debt that they have taken onboard as a result of this, and they are family-owned businesses, is somewhere in excess of $10 million.

Mr WILKINSON - I think I know the answers but I am just getting them from you, if I can. They took that on with the belief that there was an undertaking that there was going to be no further change in the forest industry, is that right?

Mr RUDDICK - That is correct, yes.

Mr WILKINSON - How long ago was that?

Mr RUDDICK - 2004 is when the Tasmanian Forest Community Agreement was entered into.

Mr WILKINSON - So those people came to you, obviously, am I right in saying, as their accountant and indicated that this is what was occurring and they would need to refinance and obtain more finance in order to get into new equipment to deal with the smaller log?

Mr RUDDICK - That is correct.

Mr WILKINSON - So they went out and purchased that new equipment. Obviously with the amount of money that was borrowed there would not be much capital they have in it and it would mainly be the payment of interest, would it not?

Mr RUDDICK - That is correct, yes.

Mr WILKINSON - In relation to the property that they purchased, if they had to resell that, is there a market for it because of the situation as it now is?

Mr RUDDICK - Scrap value is almost all they would be getting for it. There is virtually no market and a lot of this is because they have had to put equipment together, hence the electrical works et cetera which needs to be written off.

CHAIR - Just remind us when the TCFA was signed, Bob? That was under John Howard.

Mr RUDDICK - In 2004 was the Howard election. I think it might have been signed in 2005.

Mr WILKINSON - How many people approximately would be in that position?

Mr RUDDICK - Virtually everybody who remains within the hardwood sawmilling sector. The veneer sector also invested in that. Virtually the entire remaining industry has some investment in that. Gunns did not take up any investment in that, though. I think they're the only industry player that didn't.

Mr WILKINSON - Are you able to give us an estimate of how many people would be involved?

Mr RUDDICK - The total funding under that package was $54 million and therefore one could say that, if the $54 million was taken up at a rate of 3:1, there was probably $150 million-plus spent on that. Forestry took up some of that; the LNG plant at Westbury took up some of that funding. It was quite a diverse funding, so as to where that might sit I would say it is many thousands of people.

Mr HARRISS - In terms of some of the related processes, Bob, I am familiar with your long involvement with helping companies to reposition, such as McKay's and others. Is there any process that you are involved with at places such as Triabunna, with the possibility of Gunns getting out of that and consortia in some way taking up the opportunity to continue woodchipping exports from that facility in the event that Gunns chooses not to be involved?

Mr RUDDICK - I was approached by a consortia and I put together a full business plan for the taking over of Triabunna and we put an offer to Gunns.

Mr HARRISS - In your view, from that economic point, given we understand that woodchipping is a by-product of a sawlog-driven industry, how important is the Triabunna facility, in your assessment, to the process of a residual product into the future?

Mr RUDDICK - You've used the term 'by-product', but the chip industry cannot be seen as a by-product. The whole of the timber processing sector requires a viable chip industry to exist to enable logs to be put into the mills at economic prices. Without a viable chip industry we have no sawmilling sector or veneer sector at all. So it is essential that we have a method of economically disposing of woodchip.

Mr HARRISS - I ask that question in the context of the term of reference for this committee, which is the impact on native forest harvesting. Again, we understand that if Gunns' pulp mill moves into the production phase at some stage they will be using plantation resource, so their chipping facility along the Tamar will be plantation, but the Triabunna facility - and I suspect Hampshire - would continue to be a mixture, but predominantly native forest, if indeed we have a native forest industry left if some people would have their way. How strategically important, in your assessment after the involvement you've had, is the Triabunna facility?

Mr RUDDICK - Without the Triabunna facility the timber processing sector in the south does not exist. It will go bankrupt. I say that from two points. First of all, there are two elements of channelling resource into the woodchip facilities. The first one is the log that is taken out of the forest that is unacceptable for sawmilling and that goes directly to the woodchip facilities. For every log that goes into sawmilling there would be eight to nine that would go into the chipping facility directly out of forests. The other significant element is that for those logs that do make it to the sawmilling facilities there is about a 40 per cent waste of those logs to get to your final product. That 40 per cent waste goes through chipping facilities at the sawmills and that is then carted to Triabunna to form part of the pile. Most of the sawmills have their own small chipping facilities. Without that sale of residue no other sawmilling facilities would survive in their own right. We have already seen a 30 per cent cut in that source of revenue for the sawmills over the last six months and that has taken an enormous percentage of profit out of the sawmill sector.

Mr HARRISS - In the consultancy which you provided have you had occasion to make any assessment of the 300 000 cubic meters which is mandated and the impact on the possibility of Gunns withdrawing from the native forest sector in the event of their pulp mill proceeding?

Mr RUDDICK - Providing there is still an ability to put 500 000 to 600 000 tonnes of log through Triabunna then the economics do work for that facility, but that has to be conditioned by where the Australian dollar might sit at any stage because the Australian dollar is having enormous impact on this industry at the moment. So if the amount of sawlog was reduced to 150 000 tonnes, given that it is both north and south I think figures in the south would be about 90 000 tonnes. Given the need to supply that level of tonnage in the south, the pulp logs that would come from that would be enough to keep Triabunna going. So the mere fact that Gunns is removing itself from the industry does not create a situation where Triabunna would be unviable. There is still enough resource that can go through that facility.

Mr WILKINSON - There seem to be two major areas why the industry is going through a tough time. One is the Australian dollar and two is the uncertainty there presently is in the industry? Can you add a couple more to that?

Mr RUDDICK - Yes. The global financial crisis has caused the Japanese paper industry to drop by about 25 per cent to 30 per cent and they were the major off-take for our chip.

Mr WILKINSON - What about the tsunami in Japan?

Mr RUDDICK - The tsunami has had significant effect; it is more so with the plantation sector than with the native forest sector.

CHAIR - There is a school of thought that the market forces might turn around more quickly, particularly with the nuclear power plants that were going out of production and perhaps the need to then use fossil fuels or chips or whatever to produce power.

Mr RUDDICK - The use of chip for fuel is not an economical use of chip at this point of time. A lot of the pulp mills and northern Japan that were affected by the tsunami were quite small pulp mills of an uneconomic scale. They were very old. I do not think they will be rebuilt. I would suggest that the investment will probably go into China. The Chinese will build and the Chinese are much tougher on negotiation of price than the Japanese, so I should imagine it is going to be still a tough road ahead. At US$1.10 there is no money left in the logs for the downstream processing costs of getting any value in the logs in Tasmania. One would hope that there is going to be a lift but the lift is going to have to come, I think, with the demand issues. The demand issues will be overcome, hopefully, when we have an easing of the global financial crisis out there. A lot of new pulp mills that are coming on stream that will be looking for resource and Tasmania is a good repository of resource. I think we are a little uncertain about where the other major suppliers might be - Vietnam, Thailand, et cetera - and what the continuity of their resource might be, given that they put timber that is only four years old into these chip arrangements.

CHAIR - I am not sure whether it is the same four wood products but even at $1.10, there is still strong demand for a lot of primary industry commodities, like dairy, beef, et cetera. That is because of worldwide demand - do you think that could still occur with the timber products?

Mr RUDDICK - I think the Japanese demand will still pick up and there will be additional demand out of China, but it will take a little time. At the moment we are at a very low point and with the high Australian dollar we're finding there are other avenues of supply. Hopefully the dollar will ease a little and we will get an increase in demand and be back to where we were.

CHAIR - Given that scenario, and that things change over time, in your view are we being very short-sighted here? Our term of reference is a proposed transition out of native forest harvesting, and given there is potentially another 570 000 hectares of HCV forest which could well be knocked out of the equation - that has obviously been talked about regarding the statement of principles - what is your view on that? A lot of that is regrowth native forest.

Mr RUDDICK - My view on that is that our forest manager needs a lot more space than he is getting at the moment, and I think Forestry needs to work through this situation. I think, a little like you, that it is temporary but I don't know how temporary it is, and that we are going to have difficult times.

CHAIR - Possibly throwing the baby out with the bathwater - without putting words into your mouth?

Mr RUDDICK - We're definitely throwing the baby out with the bathwater. This was a perfect opportunity to sit back and have a look - if Gunns are to exit the industry - that we were seeing the requirement for those remaining in the industry under the Tasmanian Community Forest Agreement to go into lower-quality product. With Gunns going out, the product that Gunns had I think should have been realigned to the industry to sustain them with better-quality product into the future, and some of it could have been made available to the remaining industry to expand. So if you take Gunns' total supply out of the market at a time when the industry is going through tough times - and in the future going into small-diameter logs is always going to be problematic for the industry; it is never going to have the profit that it's had in the past. If there is some realignment of that resource, I think that would assist the industry well into the future and also give it greater security as to where its resource might be as far as time and quality is concerned.

Mr WILKINSON - Bob, we've heard evidence that the chips from native forests aren't of as high a value or as good as the plantation chips and that the world market is moving out of chips from native forests and just looking at plantation chips. What do you say to that?

Mr RUDDICK - I don't think that is correct. There is still need for some native forest chip to be involved in the process and a lot of this came down to purely a price situation; native chips can be supplied at a cheaper price than plantation chips.

Mr WILKINSON - Is that why you're saying you believe there is still a need for native chips to be on the market?

Mr RUDDICK - Yes. I think there will always be a market for native chips, both through price and the fact that there is a need to have some native chip in the composition of the product.

Mr WILKINSON - When you say that, do you mean just as a result of price or that it's a better product?

Mr RUDDICK - Both, there is some need for a mix there.

Mr WILKINSON - Why is that?

Mr RUDDICK - I'm not a pulp manufacturer but that's what they are telling me in the pulp industry.

Mr WILKINSON - This argument is a moveable feast - first it was that you have to get out of old-growth forests, next it was go into plantations, and now it is high-conservation-value forests. What's your definition, if you've got one, of HCV forests?

Mr RUDDICK - I don't think anyone has a definition of high-conservation-value forests. My understanding is the term came from the World Wildlife Fund and their major concern was to ensure that forests weren't being denuded for plantations They had no preclusion on HCV forests not being used as working forests, they just wanted to make sure that they were properly managed. I think there has been a hijacking of this term that something of high conservation value means that you cannot use them as working forests.

Tasmania has a fantastic and unique resource out there. We have very little other resource that allows us that competitive advantage. Why we would cut this resource off I have no idea. As to the utilisation of terms like 'high conservation value', let's put some science around it - what does that term actually mean? - and let's see if we can manage the forest to that extent.

Mr WILKINSON - Do you know of any definition at all that has been put up to support what a high-conservation-value forest is, because I don't?

Mr RUDDICK - No, there's no definition out there, and that's one of the frustrations of the industry.

Mr WILKINSON - The other matter that was brought up was in relation to carbon value. Some might argue that that may be worth money to Tasmania, but if the area was locked up now they would be forgoing that money which may be a by-product, let's say, of not locking up the forests now. What do you say to that?

Mr RUDDICK - I have become quite confused with that. All I see is that at the moment we have a forest industry that previously was giving well over $1 billion to this State and is probably still giving half a billion dollars to the State. Locking that up at the moment, and the lock-ups that have been touted out there, would destroy the industry and I cannot see where Tasmania is going to find another industry that is going to be able to replace the existing infrastructure out there. This is a very valuable industry.

Mr WILKINSON - You have been involved in it for a number of years. Are you able to say how many communities around Tasmania it supports? I am looking at communities like Scottsdale, Triabunna et cetera.

Mr RUDDICK - I would have to say about two-thirds of regional Tasmania has some involvement with the forest industry. I was the advisor to French Enterprises when they sold out and went through the whole transition process there and that was such a failed exercise in trying to change the dynamics of the industry that I saw that town die out completely. I will not go into any great detail now but it was a difficult outcome there.

Mr WILKINSON - Say you come to Tasmania and are given the job of ensuring that there is still a forest industry - what do you do?

Mr RUDDICK - What we have at the moment is an established area that is forested. If Gunns remove themselves from this area it will mean that the amount of timber taken out of that area will halve. What we need to do is determine what are the iconic forests and what are the areas we can afford to lock up which should be locked up purely for conservation purposes, but there needs to be some science put into that and any transition that does occur must occur over a reasonable period of time. I think what we're seeing here is that people are trying to get instant victory out of this and it is going to destroy the industry.

Ms RATTRAY - Bob, thanks for your comments today. With your knowledge and understanding of the industry and your relationship with people in the industry who have borrowed money, have huge amounts of debt and are relying on some sort of certainty, do you have any idea how long these people already in the industry can hang on until we get some sort of certainty? Is there a time frame, like six or 12 more months, before people are just going to say that they can't hang on any longer?

Mr RUDDICK - Unfortunately I don't think the choice will be up to the players in the industry. Unless there is certainty out there financiers will not tolerate the level of debt that sits within the industry and therefore when it comes to renewal of financial facilities I think this industry is going to find it quite difficult unless they can prove that there is an economic supply of sawlog for some period to come, and I am talking 10 years-plus must be the time frames that we are looking at there.

Ms RATTRAY - So no real time frame, in your mind? That might be too big a question but I would be interested, given your level of understanding of the industry, how much longer you can see we can just tread water, if you like.

Mr RUDDICK - We need certainty in the industry; we need certainty in the next three or four months.

Ms RATTRAY - As short as that?

Mr RUDDICK - Yes. There's an enormous amount of stress being placed on this industry at the moment. People are going to work every day not quite knowing what the supply arrangements will be. I think we're a little bit fortunate that it would appear Triabunna has certain contracts that would keep it going through until December, but the tsunami has closed it down for two months and that's had an enormous cash-flow effect. Whilst they're still taking chip, they are not paying for it. It's all on a consignment basis. It has to be done within the next few months.

CHAIR - Just to encapsulate, Bob, and given the term of reference we have in front of us, your view is that if we do go down this path then it's quite disastrous for local communities, regional communities and in fact the State as a whole in going down this proposed transition out of the native forest, given that as I think you said, 'We have a marvellous resource here which is a renewable resource and therefore it has a lot of ramifications on the economy and the social impacts for Tasmania'?

Mr RUDDICK - Any transition we do has to be done over a long period of time. It can't be done immediately. That transition has been underway since 1990 when the original regional forest agreement came into play. The certainty needs to be there. If we try to accelerate this situation, I think it will have significant impact upon the entire industry.

CHAIR - Is there anything else that you'd like to say?

Mr RUDDICK - Only to reconfirm that we have a fantastic industry and it is being well managed. It is something that is unique to Tasmania and if through just feel-good arrangements we allow this industry to slip, I think we are going to get into quite a malaise in Tasmania.

Mr WILKINSON - Can you give us a whistlestop tour of your expertise in the area, please?

Mr RUDDICK - I have been director of McKay Timbers and Clennett Timbers. I am senior adviser to Britten Brothers and McKay's. Clennett's was taken over by McKay's. I was heavily involved in the softwood industry and the principal adviser to French Enterprises. I am also adviser to various sectors of the industry, such as putting together an offer to take out the Triabunna woodchip mill and various other advices to the industry.

Mr WILKINSON - And that's over how many years?

Mr RUDDICK - That is over 30 years.

CHAIR - On behalf of the committee, thank you very much for your comments this morning. Whilst we've been focusing on the public part of the industry, Mr Lord who is coming along next has a long history with the private part of the industry. They are interrelated, as you know.

THE WITNESS WITHDREW.

Mr JOHN LORD, PRIVATE FORESTER, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Hall) **-** Welcome, John. If you would like to make an opening statement and then take some questions from the committee, thank you.

Mr LORD - Thank you, Mr Chair. I am able to set out a bit of background, if that is of interest and necessary. I can do that now or at the end, at your leisure. I have come prepared to potentially speak to you on four things. One is the statement of principles, the second is the statement of principles process as it appears to have occurred, thirdly a process going forward that may be of relevance to your committee and fourthly, the most important thing, the sparkly thing, is the opportunity that our native forest sector provides to us. That is the most important of the four.

Mr Chair, there is a little correction I would like or a little comment I would like to make. I have read the transcript of the TFGA's interview and I think there is the possibility of misinterpretation of one piece so if I may at the end I would like to clarify that.

CHAIR - Yes.

Mr LORD - Were I to run through my four prepared pieces, it would take me 30 minutes. If that is too much time then I would cut straight to the end and just look at the last.

Mr HARRISS - I think that is important, Mr Chair.

CHAIR - Yes, we have 45 minutes. We know you are always succinct.

Mr LORD - Thank you.

My name is John Lord and I am a seventh-generation Tasmanian. I am a solicitor and a chartered accountant and I was a partner with KPMG for 25 years. I have been involved in and around primary industry all my life. My wife and I conduct a small farming business but our main primary production business is as tree growers and that is largely managing native forests. We have been doing this for 25 years. I have been involved in the forest industry for 30 years. My wife and I received the Australian Forest Growers' Tasmanian Tree Farmer of the Year Award in 2005 and we won the national award in 2006.

I was one of the inaugural directors of Transend Network, as some of you are aware, when the Hydro Electric Commission was disaggregated in 1998 and became the chairman a year or so afterwards and was chairman for about a decade after that. I am currently the chairman of the Tasmanian Irrigation Development Board and chairman of the steel fabrication group Crisp Bros and Haywards. I am a director of Rural Holdings Limited which is a listed public company that provides rural services and supplies around Australia. Here in this State, for example, it owns Roberts Limited. That is one of our major businesses. I am a director of Private Forests Tasmania.

I am not a scientist and I am not a formally trained forester and I am appearing before you today in my private capacity.

Firstly, Mr Chair, in the press recently there have been some statements that the logging industry approached the conservation movement to seek assistance to exit native forests and that the native forest industry is not profitable. Both of these statements are incorrect.

My belief is that Gunns and Gunns alone approached the ENGOs and asked them what they would want in order for them to support their pulp mill, and they are quite entitled to do that, the answer, I believe, being the cessation of native forest logging in Tasmania. I believe the union joined them because the bush is not unionised but a pulp mill would be. So I believe the statement of principles is really the document that has three parties to it. Now, as we know, there are others who have signed it. I do not know why they have done that but I will come to this shortly. But I can report to you that the people with whom I have spoken who belong to the other sectors or organisations that are signatories are not happy. In fact, in 100 per cent of the cases, in every case when someone has spoken to me, these people concerned have not approved of their leaders signing. They do not agree with the statement of principles and some of them are just downright angry. So I put it to you that it appears to me that the statement of principles to me is an opportunistic play act by three groups for their own purposes. The presence of the other signatories may really be Clayton's signatures signed by their leaders but lacking the support of those whom they represent.

Secondly, the statement of principles process. The process that the parties appear to have followed does not appear to have any scientific basis nor am I aware of any social impact studies having been done, nor am I aware of any economic studies having been done. For what it is worth I did a little evaluation matrix on the statement of principles and I ended up with about 10 tests. When I evaluated it I got a 100 per cent failure. I have been doing this sort of evaluation matrix for decades and never once have I ever done an evaluation matrix with a 100 per cent failure - or anything even approaching it.

Then we have our elected leaders who have allowed the process to occur to get where it has gotten to. It is okay in my view to let others bring a plan to the government for a radical redesign of one of the biggest sectors in the State but I would have thought that the Government would have said something like, 'Yes, you may do this but when you have finished your work and you bring us a plan please understand that we are the government and we are responsible to the people of Tasmania and we have to explain to the people what your plan would mean. So, your plan will need to fit through three sieves: environmental, social and economic sieves. You will have to be able to show us, the government, so we could potentially explain to the Tasmanian public why your plan provides the very best outcomes for our State from an environmental, social and economic perspective.' I may be wrong but I am not aware of anything like this having been said. What I do know is that there has not been any consultation within the community. There can be consultation; this has been done very successfully before. The forests and forest industries strategy process approximately 20 years ago included something like 13 regional meetings. There were over 1 000 written submissions received. Librarians had to be employed to deal with the written submissions such was the level of community engagement.

CHAIR - Which process was that, John?

Mr LORD - This was the FFIS process. That led to the creation of the Forests and Forest Industry Council. The forests and forest industry strategy was under Michael Field's premiership.

A small group of individuals who call themselves Tree Roots convened a meeting at Campbell Town which was attended by some 86 people from across the State drawn from a whole range of vocations, professions, businesses et cetera materially affected by the native forest sector. This meeting unanimously called for some sort of community engagement. This has not happened. There is real despair out there; there are real losses being incurred and the State is losing top quality people because they believe that their industry is to be shut down. In my view this is just not good enough.

I am assuming that the Government is looking hard, behind closed doors, at the environmental, social and economic aspects of the native forest industry in this State and when they do make decisions they will be able to show us that the decisions are the very best based on the three measures: best for the environment, best for the people and the community and best for our economy. People often say to me it is up to the Government; the Government will make its own decision. Yes, it will, but I do believe that our elected leaders will have to be able to explain to us why they make the important decisions they are elected to make. On the issue of native forests, these three tests are the ones.

In situations like this I believe that it is often a useful exercise, when there is a debate or a conflict, especially when men are involved, to try to separate 'what' from 'how'. You need to get the protagonists together but with a whiteboard for each group. You then ask them on their own whiteboards to set out the outcomes they are seeking - simply to write on the board 'what'. In doing this the parties are not allowed to consider or debate how they are going to go about achieving them; they just have to put up their desired outcomes. How is a later question. You usually find, and often to the surprise of the parties, that there is about an 80 per cent correlation across the boards. Once the 'what' is agreed the energy can then be expended on considering 'how'.

Mr HARRISS - Then you introduce women and it reduces from 80 to about 40 per cent. Is that what you were going to say, John?

Laughter.

Mr LORD - No, Mr Harriss, it's one step at a time.

There is a second question that may interest your committee, which is to inquire of those presenting to you, once they have clearly articulated what outcomes they are seeking, why they are seeking what they are seeking. If you are to re-examine the industry, what are their desired outcomes and why did they sign the statement of principles? I can tell you that others within the industry are scratching their heads. Why would their leaders sign something that looks to the exiting of their industry? They do not know. If you are to re-examine the ENGOs, why do they wish to have another large area placed into reserves? Is it ideology? Is it for environmental reasons? I have heard community environmental leaders who are not involved in the process say that they are very concerned, and I quote, 'Because an outcome could be that we may lose the ability to manage our native forests'. This is from community environment group leaders.

If you are to re-examine the TCA and perhaps examine the contractor leaders, again, why did the leaders sign? Again, I can tell you that their members, the ones I speak to, are scratching their heads. They are nonplussed or worse. Answers to such questions may help your committee to understand more clearly and perhaps assist with a way forwards.

Now to Tasmania's native forest estate and the opportunity it presents us. Let us go back to basics. I and few colleagues think that in the years and decades to come two things will be of the greatest importance to our civilisation and this is apart from retaining our environment in good shape. These are going to be access to water and access to energy. The production of food is a derivative of this. It is enabled by having water and energy and some sunlight and some soil, but water and energy will be the primary ones.

Let us look at Western Australia first. At the moment, Premier Colin Barnett has been having a lovely time economically and has had quite a bit to say about Tasmania not pulling its weight. In 20 years, which will pass pretty quickly, he will have a State with some pretty big holes in it but here in Tasmania, in my view, we have what the rest of Australia has, which is good sunlight, plus something that a lot of Australia does not have, which is good rainfall. This, with our soils and climate type allows photosynthesis to occur, enabling us to grow food on our farms and wood within our forests. I think Tasmania is a fantastic place on a world scale to grow trees and this may be one of the most significant competitive advantages that the State has. Our sunlight and water will still be here as our State's competitive advantage after the iron ore has been dug up out of Pilbara and sold off. We just have to understand this and realise what a fantastic advantage this is over, for example, what WA really has. But we have to be clever.

What really is wood? Yes, it has structural qualities but really it is solid sunlight. It is cellulous and hemicellulose cells that are held together by glues called lignins. The chemical elements in here are carbon, hydrogen and oxygen and these are all produced by photosynthesis. I am advised that the elements required for plants to grow - phosphorous, potassium and nitrogen - are not in the wood here. They in the bark and the leaves in the heads of trees. So when we cut down a tree, we leave the bark and heads in the bush to rot down and we simply take out the wood. My view is that managing our native forests is our most sustainable enterprise. It is the most sustainable enterprise I know of. We do not use chemicals, except for controlling noxious weeds. We do not use chemical fertilisers. We only remove the carbon and hydrogen and oxygen that is in the wood and all of these, I am advised, are replaceable by photosynthesis because we have the sunlight and water.

What is in our family's report card? We started managing native forests 25 years ago. What is in our report card today and where are we going in the next 25 years? As a small private forest manager we may actually be a microcosm of the public forests because the questions private forest owners have to face I think are the same as the Government. The first question is, do we want a native forest estate? If the answer is yes, then because forests are dynamic we can't shut them up; if we do, we lose them, and I'll explain why later. There are two things required: we have to know how to manage them and we have to be able to afford to manage them - the economic question.

Looking at our family's little enterprise, what is our environmental report card? We have learnt a huge amount. From the biodiversity point of view, a scientific study was conducted some years ago on our block that showed that where we are actively managing our native forest the biodiversity is better than where we have a piece that's not managed - a piece that's locked up. This is a published report. Secondly, regarding climate change and carbon sequestration, there is a published report put out by Commonwealth government agencies that shows that, over time, where we actively manage forests we sequester twice the amount of carbon compared to letting the forest grow and simply locking it up as a store of carbon.

Then we have the matter of introduced species. With the introduced flora and fauna species that are in Tasmania, I believe we're now past the point of no return; we've just got to stay here and manage them. There is one introduced species that gives us the most problem - and that is human beings. They are our major problem.

Now to our social report card, which shows great success for our family, our friends and their children with what we have learnt. It has included our ability to help retain our local community by employing local contractors. We've had the opportunity to meet and work with people we wouldn't otherwise have met. The real treasures when you set out to manage native forest sustainably are the bushmen, who are usually quiet, intelligent men who know how to look after and treat forests. Each time they visit they leave the forest to become better than it was before. These people are amazing, unassuming people. We have taken groups in buses - a probus club, schools groups and others - to show them what we are doing. Some of them have had pretty firm views about forestry when they arrive and I can report to you that in 100 per cent of the cases our visitors have left happy, some with completely different views of the world, having seen it for themselves. This gives our family a huge level of confidence that what we're doing is okay.

Our third report card, our economic report card, is the third leg of our stool. There are three legs: environmental, social and economic. As you would appreciate, if you have a three-legged stool and lose any leg, no matter which one, you lose the stool. When we bought our land we gathered together the money to buy it, but there was a family rule: the bush had to fund itself; there was no feeding it from outside. Our example, I think in this regard, is probably pretty much like the State's public forests. I think the State's public forests have to look after themselves economically because as a community we can't afford to divert funds from health, education or police to look after them.

In my view, the native forests in Tasmania is a special land class because it has the potential economically to look after itself. From our point of view, we have succeeded. Our bush has paid its own bills and we're now starting to see some return. We planted some plantation trees and have been growing nitens for 22 years now in a regime to grow them through to big logs for solid wood. I know they're not acceptable to the sawmilling industry but I'm still hoping there may be a role in the veneer industry in the future for construction ply. In the last couple of years we have struck a couple of hurdles. The last two winters have seen quite a lot of damage because of wind, with trees blown over, and also we've had quite a few trees killed by grubs. We've not had these problems in our nearby native forest.

Our family's view is that our native forests are like us, dynamic and not static. It is a moving picture. From a economic point of view, the marketplace is dynamic, too. As forest growers, we are primary producers. As primary producers we are used to cycles in our markets. We recognise that this wood here is stored energy and this is very well recognised overseas in countries like Sweden, which is now producing more than half its domestic heat from biomass. Jurisdictions like upper Austria I think are now producing 34 per cent of their electricity and heat from biomass, including wood, but they are moving to 100 per cent in some decades from now.

These countries are actually growing and managing wood lots, specifically for the production of heat. I am aware the World Wildlife Fund for years has been lobbying governments to move away from petroleum fuels to produce some fuels from trees - they had a picture of a tree with a fuel hose sticking out of it on the front of their report. For some reason here in Australia we have a policy setting different from the rest of the world. Biomass is discouraged in Australia. In my view we are 20 years behind but therefore we have the opportunity to catch up.

Six or seven years ago some private forest interests in Tasmania realised that with the nitens pulpwood about to go onto the market for paper makers, our native forest product would become a less preferred feed stock. So we looked for alternative uses, and there are a number of potential new uses that would lead to new value-adding industries in Tasmania.

We focused on one - and I will speak to just one - the production of liquid fuels, in this case ethanol. About 30 tonnes of logs will produce in excess of 6 000 litres of ethanol. I look at the members of your committee, Mr Chairman, and wonder how many cars are in your wider families. Let us say there are four and each car does 15 000 kilometres a year - one load of logs will run all the cars in your family for a whole year; that is the energy contained in one load.

An Australian scientist has proven in the laboratory a clean, efficient way to convert cellulose and hemicellulose to sugars and then to ethanol. He is now less than a year away from concluding a pilot plant scale test - and this is a $10 million facility in New South Wales - to show that this process can be run at an industrial scale. This is Australian technology and it is world-leading. This opportunity has the potential to provide a market for residues and low-grade material of grades not suitable for milling, that is better, economically, than the current markets supplying the paper makers. So we potentially have a new, real industry which would value-add in Tasmania and afford to pay people properly. Such technology, when proven, will be able to use any cellulosic feed stocks - waste paper, cardboard, green waste from councils and other farm surpluses like straw and what-have-you.

Industrially, the process only requires a small plant footprint; it is environmentally clean and is energy- and water-positive, so it produces water and energy as well as the ethanol. The process converts the cellulose to sugar and then to ethanol. You can actually take the sugar out and use it for other purposes, if you wish, or you can divert it and make plastics from it, so we can have a bio-plastics industry here as well if we want to. That is potentially fuel and plastics not tied to the availability and price of oil, and made in Tasmania.

So what am I saying? By using the sunlight captured by our trees, we could, on a truly sustainable basis, make all the petrol-type fuels we need. We would have a large surplus we could export out of Tasmania and be able to make plastics. This would, in my opinion, provide a real win on all three of my tests. Environmentally, we would be able to pay for the active management necessary to retain our native forests and we would be replacing petroleum fuels with renewable sourced fuels. Socially, we would be able to retain our employment, our skills sets and our diversified demographic; and economically, we would have a viable, relevant industry or industries.

From an environmental point of view, I believe Tasmania is today carbon-neutral, not by Kyoto's political rules, but really, scientifically. I think today in Tasmania we are sequestering more carbon than we are emitting. Are there any other jurisdictions on the globe doing this at the moment that can make such a claim? I don't know but I would like to know.

I have done my own calculations to come to this conclusion and I may be wrong but if I am correct or any where near correct, it is because of our management of our forests over the past decades, both public and private, including in particular the native forests. In my view if we were to shut our native forests, we would gradually lose this outcome and move back to becoming a net carbon emitting jurisdiction. If my sums are correct or anywhere near correct, what a fantastic thing for Tasmania, for innovation in Tasmania, to be able to say, 'Come here, come to this jurisdiction where we are already carbon negative'.

If we do not manage our native forests, they fill up with carbon in the form of mature trees and litter. As you would be aware, the riskiest place to leave carbon is in the forest. Look at Victoria.

Let us now look at Tasmania's economy quickly. I am not an economist but I do go to economists and ask them questions. I have been told that our State's economy when looked as a large pie is made up of a quarter that comprises the wealth-creating sectors and there are only four sectors within that quadrant and forestry is one of these four.

The next approximately a quarter of the pie comprises the sectors that service the wealth creators and the balance, a bit over half, is health, education, administration, police and welfare. That is our economy. So a quarter of the pie creates the wealth. It seems to me we have to be very careful with this quarter.

In concluding this part, Mr Chair, in my view any changes to the management of our native forest estate has to be on the back of the Government being able to show that these proposed changes would provide the very best outcomes in terms of our environmental, social outcomes and our economy. The specific issue, in my view, at hand is not the reservation of more native forest areas but the way in which we may manage this area to produce the outcomes the various parties to the statement of principles are really seeking.

In my family's view we ought to retain our native forest. Given the introduced species we now have, especially the human beings, we have to actively manage it and to actively manage it, it has to be able to economically self-fund itself. In my view what our native forests offer may well be our State's greatest sustainable opportunity; it is that important.

That is the end of the evidence I have prepared but if I may just make a quick clarification so I don't forget, there was evidence given to your committee on 18 April by the TFGA and I believe they tabled a document. Those attending were Ms Jan Davis and Mr Brett Hooper. Mr Hooper spoke of a 205 hectare block that was considered on the farm for a CAR reserve. The farmer, as he reported, was initially offered $61 500 for a perpetual covenant. The government officers then decided to go elsewhere - they said, 'No, we have better value somewhere else' - and the farmer then harvested the timber and replanted it. The farmer received $752 000; he received three-quarters of a million compared to the $61 500 he was offered to potentially lock it up forever. The $5 million which was mentioned by Ruth Forrest, I think, was the value of the wood processed at a commodity level of sawn boards and chipping and it was not what the farmer got.

CHAIR - Yes.

Mr LORD - Doing the job did provide 10 man years of employment and I know that the next time this area is cut it will produce $8 million for the State, so it produced $750 000 for the farmer and $5 million for the State and it will be $8 million next time.

I have the document here. I will table it if I may, please, Mr Chair.

CHAIR - Thank you, yes.

Mr LORD - There is a correction to one of the pages on the bottom. So when you look at the TFGA's document -

CHAIR - Mr Hooper spoke about that.

Mr LORD - Thank you.

The farmer concerned was a client of mine at the time and I have his permission to table this document. I can add again with his express permission that when the wool cycle was going badly in the late 1980s his bankers supported him and his family only because of his forestry assets and I can't think of a better social outcome from private forestry that the standing forests enabled the family to hold their farm and not have it sold off. So I can report that today this farmer, his family, employees and the farm they manage is one of the leading examples in Tasmania of how to integrate trees into a productive farm landscape on a sustainable basis, and this site is used regularly as a showcase for interstate and international visitors.

Ms RATTRAY - It was an insurance policy, and the bank acknowledged that?

Mr LORD - Yes. Without that, the bank would have required them to sell.

CHAIR - Thank you very much, John. You covered a lot of territory there. You talked about an audit done on some of your private forest and you talked about the biodiversity on that. Is it possible that you could send that to the committee secretary?

Mr LORD - Yes, I can. There is a table towards the back which has the indices that were measured and that will show your committee very clearly the results.

CHAIR - On that very matter, it has been put to us that if there is a further lock-up of the public forest estate, native estate, that may well put a lot more pressure on the private forest estate because some ENGOs, not all, claim that most of the important environmental and biodiversity values are in fact on private forest estates, not on public forest estates. What's your response to that?

Mr LORD - My view is that those who are making those claims are undoubtedly correct, but I would point out that in most cases we will find, if we look into history, that for the last couple of hundreds years in many cases the families who have owned this land have managed it in a way consistent with retention of these environmental values. The encouragement and recognition should be given to those families and they should be politely asked to keep on doing what they've been doing for the last century or two.

Ms RATTRAY - We have had a bit of conflicting evidence in relation to native forest and the chip use and whether that is the best way of using that mix, particularly for pulp mills. Do you have a view on whether plantation chip is the best way to go or whether you need a mix, given your knowledge and understanding of the industry?

Mr LORD - I have some understanding, but I'm not an expert on pulping of timber. When wood is sold for the paper industry we're talking about selling for just one purpose, which is paper making. Wood, as I have explained, is cells held together by glues. It is broken into chips for ease of handling and then put, as I understand, in a pressure cooker, often with chemicals under heat. The glues are dissolved and we end up with a slurry that contains the fibres. Usually there are paper mills attached to the pulp mills and the fibres and liquid are taken out. If you go through a paper mill, you can see how they take the water out. When you buy chip, you will be looking at what they call the pulp yield. If I buy a tonne of your green chip, what fibre will I get out of it? I understand that the different classes of chip are rated by yield. The plantation species will produce 50-something per cent pulp yield and native species will tend to be in the high 40s or, if you're lucky, the very low 50s. So you get a better yield if you buy the plantation wood. I am sure there are other characteristics of colour, brightness and what-have-you. My understanding is - and that's why various people looked for alternative uses six to seven years ago - that the lower-quality fractions of chip provided from some of the native forest species, which were then being sold for paper making, would become a less-preferred feedstock as higher-quality feedstocks for paper making came into the market. That is why we went looking for other uses and recognising that wood is really energy, was there a way in which all the grades - we are not talking about making paper anymore, we are talking about an entirely different market - could be used for energy.

Ms RATTRAY - Which, in your view, going down the liquid fuels path, would give a better return for the native forest?

Mr LORD - It may be as good, but I have worked with the scientist over the years and gone through his numbers with him. It just depends on the cost of the plant and whether there are any economic rents or not, but it has the potential to be a better industry than providing chips to the paper-making industry, and we could have value-adding plants here in Tasmania.

Ms RATTRAY - What about the numbers involved? Obviously for harvesting and the like there are similar numbers to what we have had in the past if we continue to be able to access native forest - and obviously private forest is a different aspect - but do you see the same numbers being involved in liquid fuels?

Mr LORD - Yes, potentially; it depends on that market. I hope we would have an industry which has a number of markets but if there was a strong market for that and other uses, I could see that we would have exactly the same level of activity potentially as we have had. One point that I would make is that the plants that this man has in mind are not large. They may require 250 000 tonnes of feedstock in each year only, so there may be a number of plants, even in a jurisdiction as small as Tasmania, one for each region potentially.

CHAIR - Thank you very much, John, and if I could encapsulate what you have said, altogether we're in a bit of a mess, are we not?

Mr LORD - In my view, we run the risk of shutting down, losing, throwing away what I regard as potentially the greatest sustainable opportunity for our State. By greatest I mean as a means of managing our environment, because we just cannot lock it up and say it will stay; it is dynamic, socially to keep our people, keep our social demographic and diversify the demographic that we have. From an economic point of view I am very concerned that we have a very small wealth-creating base in our State. If we were to close this industry we would lose potentially the most sustainable opportunity in those three fields of anything that we have. It is that important.

CHAIR - On behalf of the committee, thank you very much for your evidence, we do appreciate it.

Mr LORD - Thank you.

THE WITNESS WITHDREW.

Mr SCOTT McLEAN, CFMEU, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Hall) - Welcome, Scott, and thank you for coming along. I do not think we had a written submission from you. We have just the one term of reference and that is the impact of the proposed transition out of native forest harvesting and management in Tasmania. I would like you to address that and then we will ask you some questions.

Mr McLEAN - Thank you, Mr Chair. I guess the first thing I should do is probably hand out copies of the CFMEU's position in respect to this particular matter.

CHAIR - Thank you.

Mr McLEAN - That statement of fact, from our point of view, is what we premised our whole involvement in the statement of principles on. It became evident to us a couple of years that the resource available for sawmilling has changed and is continuing to change, there is no question about that. The quantity has changed, the location of the resource has changed and our members who cut this stuff up in sawmills said, 'Hey, what are you going to do about this?' So we had a look and started to explore exactly what was available in relation to resource, particularly the quality of resource that we need to mill, and it would be fair to say that nobody really knows where all the resource is and what the quantity and quality of it is. That is a pretty fair comment. FT, who to some degree are the custodians of it, have a view about where everything is but they are not entirely sure in the grand scheme of things. That has been evident through the discussions of the statement of principles that I have been involved in.

We have this issue with resource and certainly the quality of it has changed dramatically. I have to say to you from the start there would not be too many organisations around that have gone to the lengths that we have gone to defend this industry and the people who work in it. I could hark back to, and everybody else will anyway, 2004 and the outcomes of what was happening then and what might have been the case had Mark Latham got his way, but thankfully he did not. We have industry with a changing resource; we have an industry that cannot sell its residue; we have a high Australian dollar; we have a tsunami in Japan and we have a whole group of other people called ENGOs that have been quite successful at destroying our markets and that is what they have done. In Japan they went past pulp and paper makers to end users. They went to the Xeroxes of this world and for want of a better description 'worked them over', which is what they did.

We decided that what we needed to do was first and foremost talk to our members and start to explore exactly what sort of outcome might come about as a result of any participation we had in the statement of principles. So what we did, which was a bit different to anybody else, is go our members, put a position to them to explore this issue and about 96 per cent of our members said, 'Explore the issue, get a better outcome if you can and come back to us with that outcome and we will determine ultimately whether we accept it or not'. That is our members in Tasmania, not nationally. So we took that position to the national executive of the CFMEU, which is an organisation of about 120 000 people, and they supported it. We took it to the ACTU and they supported it as well.

So what we have been doing is exploring how we can get a better outcome than if we do nothing and let this process roll on. If we take a look at just where exactly the industry is at the moment, we cannot sell the residue. You know and I know that 30 per cent of everything you cut in the sawmill is sawn timber; 70 per cent of it is waste because trees are not square. We should talk to god about that perhaps and get square trees from somewhere. So we can't sell the residue. The markets for the sawn timber - though some will say are buoyant because of the high Australian dollar - have all sorts of difficulties. We have Triabunna closed; we have a number of sawmills in the south under huge pressure from a cash flow point of view; we have Hampshire closed; we have Tamar closed and both mills at Scottsdale closed, although they are pine, so the markets are actually rationalising this industry. That is what is happening here.

I do not like ENGO voodoo science and I say it to them every time I see them when they talk about HCVs, but we need to do something otherwise the industry will restructure and people will lose their jobs and communities will lose all their services, whether we like it or we don't.

Mr WILKINSON - HCV seems to be just a word people are using. It seems to be trees, full stop. You have to conserve high conservation value forests, but they realise there is no definition and therefore it is just that you can't cut down trees.

Mr McLEAN - That's it - icon areas. I have looked at their maps a number of times and other than the north-west coast, from a purely science point of view - and I am not a scientist - there is no rhyme or reason, but there is 572 000 hectares of forest that they want locked up and which we currently have locked in a moratorium for six months, but whilst that goes on we still have to survive. I agree with you, Jim; there is no science in it because the science that we have is right; there is no question about that. All our scientific practices in relation to everything that we have done in this industry since the wood and paper industry strategy back in the early 1990s is correct. There is no question about it, but this is an arrangement whereby our markets have all but gone and we cannot sell the residue. It is all very well to talk about a whole series of things but in the short term, unless we do something, we will not have an industry to worry about anyway. It will not be here. There might be a few small sawmills but that is about all.

There us huge pressure out there on workers, communities and contractors. If you are a forest contractor or a harvesting haulage contractor, how you have got this far is beyond me because they fall over every day. I am sure the Forest Contractors Association will give you an accurate figure but it is something like four or five a week at the moment. Contractors are going broke, locking up their gear and getting out of the industry if they can.

So we need a whole pile of assistance from the Federal Government, because I do not think that the State has too much spare capital at the moment, to try to make this whole thing work.

CHAIR - Have the Federal Government got it?

Mr McLEAN - I honestly do not know. We are up there trying to see what is available and to get as much as we possibly can to put into worker assistance packages or relocation if need be. Training: one of the things that we have found through the Scottsdale experience is that big, burly timber workers make very good aged care providers or employees. Do not ask me why that is but they do. That is an anomaly I guess from the north-east but there are a number doing that.

CHAIR - Scott, I will be the devil's advocate here. We are potentially selling out what is a very sustainable industry still in this State. Bearing in mind that market forces do change, demands do change, are we throwing the baby out with the bathwater in order to try to access public monies out of the Federal and/or State governments just to appease the statement of principles? From the evidence we have had a lot of people are very upbeat about the potential; this is perhaps the first negative side of the argument we have had put to us.

Mr McLEAN - I do not know that if what I am saying is necessarily negative; it is just factual. It is a fact that if we do nothing then this industry will go anyway. That is a reality, because there is not a sawmill in the State that does not produce woodchips. That is a fact. At the moment none of them can sell them. That is a fact. Sawn timber, which takes time to dry, is a very good product, do not get me wrong. The native forest stuff that we produce in this State, and some of the minor species stuff, is the best that I have seen everywhere. We have really good timber, but if you cannot sell the residue, which is the cash crop - you do not have to dry it; all you have to do is get it too one of the woodchip mills - then ultimately the industry will fall over. There will be a few small sawmills about. The union's position is clear. If there were to be a plan B to the statement of principles then by all means give us plan B because all we have is plan A at the moment. No-one I know has a plan B but if there was one then by all means let me have it and we will go down that track real quick. At the moment we do not have an option as far as I can see. If we cannot sell those chips, if we cannot sell that residue, then people will ultimately go broke. You know that section 22AA of the Forestry Act says to provide up to 300 000 cubic metres of high-grade sawlog. Well, people have got the wrong bent on that, if you like. You do not just walk into an area and there is 300 000 cubic metres of sawlog. That 300 000 cubic metres, and another 50 000 on top of that down in the south, throws up over 4 million tonnes of pulp wood. That is what happens because it is not all in one area.

In answer to your question, I do not think that we will ever see a total end to native forest logging. That is my view and the view of the union. In the short term, it will be extremely difficult to continue to do it, but I don't think we will ever see a total end to it. For instance, in the statement of principles we have made it very clear that unless there is timber available for Ta Ann there is no deal from the unions' point of view. Unless there is timber made available - and this is all sustainably - for Britton Brothers on the north-west coast, there is no deal from our point of view. That's pretty much where it is. As far as I can see there is no plan B that that will work, but if there is one, by all means give it to us.

Mr WILKINSON - Scott, no doubt in your discussions with the CFMEU and the Federal overarching branch, people were talking about options; there would not have been just the one thing coming forward, there would have been other matters brought forward. What were they?

Mr McLEAN - We talked about all sorts of things. We talked about the displacement of workers, our primary focus. We also talked about the opportunities for biomass plants and the use of nitens. For the committee's information, the Tasmanian country sawmillers - and I am sure you, Mr Chair, are aware of this - have a very different view about nitens. They would transition into plantation nitens tomorrow. They will explain it to you, I'm sure, but they believe that they can sustainably use the nitens. Their issue is marketing that product. I have seen some of the end products of those nitens and some are very good. I know a couple of people who have renovated their houses using that timber and it's fine provided it's properly dried. I am sure they will talk to you about that.

We explored every single avenue we could think of, and it's not just Tasmania that is in trouble; the rest of the country is in trouble in native forest. Northern New South Wales and Victoria are in trouble with overcuts, residue sales dropping off. People talk to me about the woodchip mill at Eden. They are selling lots of woodchips to the Japanese, but it is the Japanese selling to the Japanese because they own the company.

We are trying to get a better outcome and we discussed every single possibility that we could come up with, particularly the issue of biomass and so on. Manufactured timber, oriented strand board, laminated veneer lumber plants - but for all those things you need investors, markets and so on. There are still a lot of them on the table but there are not too many people knocking at the door at the moment to build an LVL plant, for instance, as far as we know.

Mr HARRISS - From a devil's advocate point of view, you have indicated that the science around the previous negotiated positions is defensible.

Mr McLEAN - Absolutely.

Mr HARRISS - That being the case and if I then translate that to a sustainable industry for Tasmania into the future based on science, why wouldn't all of the players, apart from the ENGOs who want to see a transition out of native forest, continue to market the great value of sustainably harvesting native forests in Tasmania rather than the rest of the world sourcing wood products from unsustainable practices in other countries?

Mr McLEAN - We've never stopped trying to sell the science of this industry. You would remember that when the Regional Forest Agreement in 1997 was signed off that was supposed to be the end of all the resource issues, but it wasn't. In 2004 the Tasmanian Community Forest Agreement was supposed to be the end. Through all this, we were still out there pushing that 40 per cent of Tasmania was never going to be harvested. We had the CRC involved. The reality is that nobody will listen because it's an easy line to say that we're going to cut this great, iconic forest down. If people want to hug a tree, more power to them - that is their right. But when you start talking about 40 per cent and now 45 per cent or 47 per cent being locked up, depending on how you look at it, never to be harvested, still people will not listen. They don't believe us. We have tried. We lost the scientific argument probably about four or five years ago. They just will not listen.

In Japan and places like that, my information is that when you get bombarded with 1 800 e-mails a day from people saying, 'We're not going to buy your product because you get it from unsustainable forest practices in Tasmania', if you're the managing director of

Mitsubishi or someone like that, you would say, 'We're not dealing with them, we'll go elsewhere'.

Mr HARRISS - You've indicated that the RFA, the Community Forest Agreement and some prior to that were expected to be the resolution to conflict.

Mr McLEAN - Yes.

Mr HARRISS - We're now hearing the current statement of principles will be the resolution to all these years of conflict in our forests. Conflict has come from one side, I could observe.

Mr McLEAN - Yes.

Mr HARRISS - Why can anybody in Tasmania be convinced that conflict will cease if the statement of principles is delivered in its entirety?

Mr McLEAN - In answer to that question, the reality is that if we take another 572 000 hectares of this State which is native forest, other than small parcels, there will be no conflict because there will be nothing left to fight over. That's the reality.

CHAIR - On the other hand, then you have the private forest estate left which is quite significant, without that public native forest estate and all the infrastructure and wherewithal that goes with it, and that has also gone as well.

Mr McLEAN - Yes.

CHAIR - So I put it to you once again, being the devil's advocate, we have then totally destroyed any native forest harvesting in Tasmania, full-stop.

Mr McLEAN - There are two points to that. First and foremost, when Private Forests Tasmania explored the statement of principles they determined that it did not really affect them. The ENGOs said that, Mr Lord who was here previously said that, and his chair said that as well. The challenge for private foresters and private forest reserves is not so much about the lock-up, it is about how they get their product processed, because if you take all the big mills away and only leave the little ones, they still have to have somewhere to take their bacon to market, for want of a better description. Their challenge will be how they get their timber processed, in my and the union's view.

CHAIR - And whether there will be enough market volume as well?

Mr McLEAN - That's right.

CHAIR - That is a really concerning point for them.

Mr McLEAN - We had a long discussion within the union about the whole native forest thing and in the short term, at least, Tasmanian oak, as we know it now, will become a minor species in the market because there will not be enough of it. There will not be the volume. I do not think there is any question about that. It will be very hard to get and quite expensive, I think.

Mr WILKINSON - Scott, your argument is put forward on the basis that they are agreeing but only on the basis that the pulp mill gets up, because when I read the paper that you have supplied to us it says that 'if the CFMEU agrees for Gunns' supply licence not to be reallocated, this will fundamentally reduce' et cetera? Then it goes on to say that the development of a strong and sustainable downstream processing and value-adding timber industry, underpinning by a pulp mill, can partly provide the outcome - you have 2 000 jobs, you say, in construction et cetera. Do I take it that the formula you put forward was on the basis that the ENGOs don't do anything to endeavour to stop the pulp mill?

Mr McLEAN - That's certainly one aspect of it, no question about that. If the State doesn't get it, I don't know what is going to happen to the State. That is how big a project it is. That $2.5 billion rolls off people's tongues very easily; $2 500 million that that project will cost. If you allow 10 per cent for add-ons, what the end figure is I don't know. But that is only part of it. We need the Ta-Anns of this world to invest, which they have said they will do. We need Britton Brothers to remain in place; we need the country sawmillers to upscale and modify and bring their mills up to a better standard. Remember that the statement of principles is only one part of it, because the whole thing is voluntary at the end of the day. If Bernard McKay, for instance, wants to stay in business, he stays in business. That is our position.

Mr WILKINSON - What happens if the ENGOs say, 'We don't agree with the pulp mill because of where it presently is'? You know the arguments in relation to that. That is not going to go away, so does that take away what you are putting before us in relation to an argument?

Mr McLEAN - I don't think they will ever agree to the pulp mill. I have had lots of discussions with lots of people who are ENGOs or represent ENGOs and I don't they will agree to a pulp mill in the Tamar Valley. They say they would have a look at a pulp mill at Hampshire. I do not know whether you have ever been to the actual Hampshire site, but if you look in a westerly direction out over the top of the trees there is Cradle Mountain, so they're not going to build a pulp mill there. There is also a series of logistic problems there, I'm sure, with water and transport et cetera. I do not think they will ever support a pulp mill. As long as they don't do anything to the detriment of it, that is fine. They don't have to support it, but just don't obstruct it.

Mr WILKINSON - Though the best way to not support it is by trying to obstruct.

Mr McLEAN - I'm sure there will be some difficulties during the construction phase, but if the major ENGOs in this country don't obstruct it then there will be considerably less opposition than, say, if ACF or whoever were involved because TAP into a Better Tasmania and Friends of the Tamar Valley et cetera do not have the resources that those bigger ENGOs have. That is my view.

Mr WILKINSON - It seems to be a moving feast. You have to get out of old-growth forest; that was the mantra. Then native forests were spoken about and now it is the high-conservation forests. There is no definition in relation to high-conservation forests.

Mr McLEAN - The high-conservation forests are ostensibly native forest. That's the reality. If you look at the maps and the layering and so on, that's what you've got. It is a very difficult time in this industry. I have been around it for 21 years and I've never seen anything like the likes of what's happening now. It has stopped almost overnight.

Mr WILKINSON - And you're saying that's not just Tasmania but Australia-wide?

Mr McLEAN - Yes, they have major problems with the resources in New South Wales, Victoria and so on. What has caused this is a whole series of things - the closure of the Triabunna mill, for instance. There were eight boats full of woodchips bound for Japan.

CHAIR - Is it not possible that a consortium or somebody else might resurrect that mill?

Mr McLEAN - I hope so.

CHAIR - If that happened in that context, that would solve a lot of the problems for, say, the southern sawmillers?

Mr McLEAN - Absolutely, and for north-east contractors and eastern contractors as well. The only issue they have is exactly the same issue that everyone else has: can they sell them, can they sell them sustainably and can they make a quid? That is the issue. I don't know as I do not study the international markets that much,

CHAIR - Would you also agree that terms of trade do change?

Mr McLEAN - Yes, they do.

CHAIR - International monetary values do change and with the world's growing population demand does increase for a lot of our primary products. They are still doing quite well despite the fact of $1.10 with the US dollar. That could well happen with wood products. Mr Harriss talked about the fact that here we have potentially the most sustainable industry in the world and yet we are importing timbers, wood products, from unsustainably produced areas of South-East Asia and others. That seems to be a real dichotomy.

Mr McLEAN - We will always have to import timber products because we simply do not produce enough to feed the market that we have. That is fact, but it a question of where do they come from.

CHAIR - What about our fine-furniture makers and some of our speciality timber? They are very concerned, with the further lock up of that 572 000 hectares, that the contractors and infrastructure is not going to be in place and they are not going to be able to access and produce those iconic Tasmanian products. They are really concerned about that.

Mr McLEAN - And they should be as well. We have said during the discussions of the statement of principles with ENGOs that there needs to be adequate provision made for timber artisans. Unless we get that there is no deal, from our point of view.

People might say we are only one player. Yes we are but I guess some people would say that we are the loudest player, or at least can be. The ENGOs do not get their 572 000 hectares legislated because they think that is a good idea. Through this process we said from the start that it's we get something, you get something, we get something, you get something, because what happened previously is that when ENGOs or the Wilderness Society or Bob Brown or whoever else gets what they want, they walk away. That is what happened with the RFA. The RFA negotiations included the Wilderness Society and the ACF. When we got to the post and they got what they wanted they walked away and then they protested the day it was signed out at Perth nursery - I was there. This process is that nobody gets everything up front - including the ENGOs. We will go through a process. We believe that the transition out of native forest will take somewhere between 15 and 40 years, depending on what people use it for. It not something that will happen in one day although there are a number of people who would like to see it go that way. That is not how it is going to happen, not from our point of view anyway.

Mr HARRISS - That matter of negotiating to a position and then walking away if anybody chooses to do so, isn't a successful outcome of delivering a statement of principles premised on agreement to high-conservation value forests? Yet, my understanding is that there is no science around that determination of HCV forests. If there is no science around it why would not the industry on this occasion walk away? If I am right in that supposition, what have the ENGOs got to give in this process? Industry has a lot to give or to sacrifice, as industry has in the past. What have the ENGOs got to sacrifice in this?

Mr McLEAN - Well, probably nothing other than their credibility in the grand scheme of things. The reality is that if the current six-month moratorium were to be pulled apart then they have to go and explain to their constituents how it is that they had 572 000 hectares of native forest in Tasmania locked up and then, because they walked away, they haven't. That is their skin.

Mr HARRISS - At the moment with the moratorium it is only a very small proportion of the 572 000 hectares identified. That is why we have ongoing protests in the forests, because people are saying that the statement of principles has not been delivered. It was agreed that it would be delivered, but we do not have all of that at the moment in temporary lock-up.

Mr McLEAN - The moratorium provides 577 000 hectares, all up, of which 98 per cent is currently locked up. There is about 11 000 or 12 000 hectares scheduled for harvesting over the next six to eight months and that's what they're fighting about, but 98 per cent of 577 000 hectares is locked up as we sit here right now.

Mr HARRISS - Is it conceivable through the ongoing negotiation that less than 577 000 hectares ultimately might be delivered and still be sustainable?

Mr McLEAN - It could be.

Mr HARRISS - If we take the argument that within that 577 000 hectares of so-called HCV forest there is some which is plantation, which is certainly regenerated forest, it raises the question in the minds of some, and certainly in my mind, as to what exactly HCV forest is.

Mr McLEAN - I don't think there is a definition from the ENGOs as far as I am aware, but in relation to the plantation and some of that regenerated stuff, a subcommittee of the Kelty process, which is part of the statement of principles process, has been working very closely with Forestry Tasmania and a number of very eminent forest scientists to remove those particular areas from the HCV. In answer to your question as to the definition of HCV from the ENGOs' point of view, you probably should ask them.

Ms RATTRAY - Why wouldn't they have been asked that question right at the beginning?

Mr McLEAN - They have been.

Ms RATTRAY - Why wouldn't there have been a clear definition of high-conservation-value forests before you even sat down or the very first day you sat down?

Mr McLEAN - On the very first day we sat down the question was asked, what is your definition?

Mr WILKINSON - What was the answer?

Mr McLEAN - 'It's HCV because we say it is'.

Ms RATTRAY - Well, why didn't you get up and walk away?

Mr McLEAN - Well, we could do that now but the reality is that this industry will go down the tube anyway.

CHAIR - You are probably aware that and we have been given evidence and shown media reports and photos from environment groups - 'These native forests have been destroyed and trashed forever' in the Western Tiers particularly - but now they're all part of the HCV process. We as a committee are struggling to understand that and -

Mr McLEAN - I've sat around the table and I'm struggling.

Mr WILKINSON - What frustrates me more than anything, Scott - and I suppose it frustrates everybody - is the fact that when you go into any agreement you have to know the particulars surrounding that agreement. In other words, if somebody just said, 'Keep out of this land', and you said, 'Which part do I keep out of?' 'Oh, just the land.' 'Why do I have to keep out of it?' 'Because we tell you to keep out of it.' 'But how do I know it is your land for me to keep out of?' You don't know because there are no boundaries around it, there are no fences, there is nothing to say exactly what it is. That seems to be the argument here. High-conservation-value forest seems to be something which people want to define in the way they want to define it -

Mr McLEAN - That's right.

Mr WILKINSON - and that is the difficult part, isn't it, because they're saying high-conservation-value forests should be locked up but we don't know what are high-conservation-value forests, therefore in a legal sense one could argue that you cannot be breaking the law if it can't be identified? You are not telling me what it is. If you tell me what it is then we can properly debate it but if you don't tell me what it is, how can we properly debate it and how can we expect people in Tasmania to, I suppose, accept what we are saying?

Mr McLEAN - I couldn't agree with you more. It's an ever-moving feast.

Mr HARRISS - It seems to me that we are tracking down a similar path to other jurisdictions in Australia where once all was given and a subsequent analysis was made from a scientific standpoint that nature conservation is the loser in essence, because if we don't manage our forests properly then the place would be destroyed by wildfire at some stage down the track anyway, so that proper and true scientific nature conservation loses out to sociopolitics. If it's a reasonable scientific proposition to defend, why would we keep defending it, as a State, as a Government, as MPs, as unions and as any player in the game?

Mr McLEAN - This is where it comes to plan B. The union does not have a problem if there is a plan B, but at the moment the only plan that we have is the statement of principles. Why do we have the statement of principles? Because this industry is falling apart at a rapid rate. We can't sell what we produce, and we are talking about the here and now. I don't know what's going to be left of this industry in six weeks' time and if Triabunna doesn't open, it will be a very different place than what we are in now. I couldn't agree with you more, but we simply don't have a plan B. We can argue all we like but we don't have a plan B and at the moment we have no assistance for workers, communities, contractors or silviculturists. We've got nothing.

Mr HARRISS - Scott, even without a plan B, isn't a large component of plan A a pulp mill?

Mr McLEAN - Yes.

Mr HARRISS - Gunns transitions themselves out of native forest by their own announcement.

Mr McLEAN - Yes.

Mr HARRISS - Then what is left, even if we halve the 300 000 cubic metres, mandate it to 150 000, we allow that native forest to be delivered for sustainable sawmilling, could we sell both the 150 000 and the residues from the 150 000?

Mr McLEAN - That, by the way, is exactly the plan. Contained within the statement of principles, that's exactly what the plan says.

Mr HARRISS - But that doesn't transition us out of native forests.

Mr McLEAN - No, that's why I said before I don't think we will ever see a total transition of native forest - my view and the union's view. There will still be burn in the case if they decide to stay in this industry, but if they want to get out we have to have a compensable exit package for them. There are other things attached to this. There are things like worker assistance and retraining, but there are also other things that we need legislatively. We need bankable contracts and proper fair contracts legislation. They are things within the realms of the State's control that we need to explore because they have been the downfall, in part, of the industry.

Mr HARRISS - You have been around the negotiations so far?

Mr McLEAN - Yes.

Mr HARRISS - You have said that your view and the union's view is that we will never totally get out of native forest harvesting. Is that the view of the ENGOs that you are hearing around the table?

Mr McLEAN - No, they understand the transition might be somewhere between - there have been figures thrown around - five, 15, 25, 40 years. Our view is we will never see a total end to it.

Mr HARRISS - So the ENGOs maintain that we need, at some stage in our future, to totally shut down native forest harvesting?

Mr McLEAN - I don't think that is their view totally. From the discussions that I have had with them, they don't want to totally end it.

Mr HARRISS - But if we still mandate for 150 000 cubic metres of high-quality sawlog, delivered from the native forest, there will be residue material from that?

Mr McLEAN - Yes, whether you can sell it or not, I really do not know.

Mr HARRISS - The pulp mill might buy it.

Mr McLEAN - Yes, except it is native forest and they would much prefer plantation timber. The pulp mill has already said it will not use native forest residue.

Mr HARRISS - Indeed.

CHAIR - Scott, thank you very much for your evidence, we appreciate it.

Mr McLEAN - Thank you.

<u>THE WITNESS WITHDREW.</u>

Mr DESMOND KING, PRIVATE FORESTER, AND **Mr MARK CORNELIUS**, PRESIDENT, TASMANIAN OAK GROWERS, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Hall) - Thank you very much, gentlemen. You are both aware that any evidence that you take is protected by parliamentary privilege within this committee and it is recorded on *Hansard* but anything that you say outside may not be protected. The secretary would have sent you some information covering that.

Mr CORNELIUS - I am just a bit confused. I have read some of the interviews on the Internet that you have had with different people and it sounds as though everything that we say is recorded. Is there an opportunity to say something that is off the public record?

CHAIR - There is, and you can put that position to us if you want to take something in camera. Then we would clear the room, you would tell us why you would want to do that, the committee would then deliberate and then we would come back and let you know whether that was the case or not; whether we agreed to that premise. Are you happy enough with that?

Mr CORNELIUS - Yes.

Mr WILKINSON - In other words, if you want it in private, just let us know and we will go from there.

Mr CORNELIUS - I think that there is something that I want to bring up and it is best not to put it on the public record.

CHAIR - All right, thank you; we will see how we go. We will hand over to you to make a public statement, Des.

Mr KING - Thank you for that. I am here because the group that Mark is the Chairman of, the Tasmanian oak growing group, have used me over the years to provide them with some support and facilitation. I am not a member of the Tas Oak Growers and I am not a private landowner in my own right. However, because of my long experience with the industry I think they thought that I could make a contribution to the entity as they sought to make it grow. So I will provide you with some background and then hand over to Mark who will go into the detail relating to Tas Oak Growers - TOG - in particular.

The Tas Oak Growers group is made up of nine substantial Central Highlands private forest owners. Between them they sustain and manage more than 50 000 hectares of forest. They are very committed to the long-term sustainability of forest management and whilst the majority of their forest is native forest, in recent years they have taken the opportunity to convert some of the land that was so seriously degraded by past activities and not growing anything to plantation. So there are small areas of plantation involved as well. In addition to that they have entered into fairly substantial, various conservation covenants with the various programs that the Government has put forward where a particular resource is determined to be at risk and therefore needs to be committed to sustainable long-term management, and again the TOG group are pretty committed to that approach.

In terms of why we are here, I think that you have had presentations from other bodies and one that I also have an involvement with is the Australian Forests Growers submission which was submitted by the Australian Forests Growers from Canberra but it was done on behalf of the Tasmanian branch. There are five or six points within that submission that are very relevant to the way the Tas Oak Growers group are thinking and I would like to cover those and hand over to Mark who will go into some of the more specific issues that he as a landowner sees of concern to the long-term sustainability.

Of the two or three pages in the AFG submission, one of the things that concerned private forest owners was the fact that during the development of the Statement of Principles there was no direct contact with representatives of the private forest owners. They supply 50 per cent of the resource to the industry but there were people sitting around the table making the decision about the future of the industry and there was no direct representation of the private forest grower group so that was a matter of concern.

Mr WILKINSON - Des, is that right, they provide 50 per cent?

Mr KING - It gets toward 50 per cent.

Mr CORNELIUS - Not the TOG group in itself.

Mr KING - No, no - the private forest owners. This is from the AFG submission.

Mr WILKINSON - Right, thank you.

Mr KING - The other thing that we found concerning was that the future access to public native forest appears as though it will be determined by ENGOs imposing restrictions without authentic scientific assessment. We find that quite frustrating because over the years the industry has participated in a number of assessments and, based on the science of those assessments, we have agreed to certain restrictions and impositions. To suddenly see a situation come along where a group that is not part of the forest ownership group or the industry group says, 'We'll lock that piece of forest up' without their being any scientific basis to it is a matter of concern.

Another concern we have - and this is a national issue - is that the future use of forest residues for biomass production will only achieve recognition that can be sold off as a resource for licence or anything if it is plantation-based resource. That is ridiculous. If you are sustainably managing native forest and you take out the sawlog and veneer log and all the things that are easily saleable, there is still some residue left and it needs to be utilised in order to ensure that the forests are properly reinstated.

The other thing we think it overlooks is that they are talking about closing down the public native forest but it makes no mention of closing down the private native forest, however if a particular industry sector is dependent on access to both types of resource and you suddenly lose 50 per cent of the scale, that has an impact.

Mr WILKINSON - How big is the impact?

Mr KING - Well, look at what's happening now. We're seeing our woodchip export industry disappear. I would normally regard that as a matter of huge concern but on the other side new opportunities are emerging associated with bioenergy, such as ethanol. I have been watching for a number of years now a company that is developing a technique to economically extract ethanol from wood waste, and if that comes off it would be a better outcome than exporting woodchips to foreign countries to make paper out of.

Mr WILKINSON - So you're saying that if the public native forests are locked up then the private native forests aren't going to be viable?

Mr KING - There's a risk of that, if you look at the fact that industry needs scale to survive, particularly as it is difficult to walk in and secure access to all of the private native forest resource in order to justify building a plant et cetera or keeping a plant open.

Mr WILKINSON - And those private native forests amount to 50 per cent of Tasmania's native forests approximately?

Mr KING - The production forest. There are more native forests in Tasmania where more than 50 per cent is on public land but a lot of that is already in secure reserves. The numbers are readily available and I'm sure you will have other submissions with the actual numbers in them.

The last of the five points we make is that any restriction that stops access to the market for the full range of products the forests generate runs the risk of turning private forestry back to where it was 40 years ago. Forty years ago private forests stood in the way of agricultural development. Farmers saw trees standing on land they would like to clear and turn into some other product. They were able to sell a few sawlogs but once you took the sawlogs out you were left with the lower-grade trees and the forest gradually degraded.

When the woodchip export industry got underway it created a wonderful opportunity for landowners, firstly, to get in and clear up all those residues from previous years and more economically clear the land - and I know because I was involved with that industry at the start. After about eight or 10 years, industry and the Government recognised that we had to change the way landowners think about managing private forests. We were able to use the fact that they could sell all their resource, short and long term, to persuade them to start looking at forestry as part of their agricultural activity and we have been very successful at that. We have lots of landowners, including these nine around the table, who see forestry as a legitimate part of their long-range thinking. One of our concerns about having things occur that takeaway market opportunities for part of the resource, particularly the residue, is that landowners go back to that way of thinking - 'What's the point of managing my forest if I can't generate an income down the track?'. We see the risk of going backwards as quite a matter of concern.

They were the things that we wanted to focus on out of the AFG submission and I think TFGA have made a similar one and, as I said, I am here to facilitate and support and encourage. Mark is here as a person with a substantial investment in private native forest and he is currently the chairperson of the Tas Oak Growers group which is a listed company and he would like to deal with some of the issues that he is concerned about.

CHAIR - Just a question to you, Des, before we go to Mark. We have seen the closure of a couple of woodchip mills already and we have Triabunna closed, I think, at the moment. Would you agree with the proposition that if there is not the capacity to take that forest residue and turn it into chips or whatever, there is not future left for the native forest industry in the State?

Mr KING - Other than that there are new opportunities emerging, as I said, in bioenergy, and I hope that part of that includes ethanol but that is yet to be proven or made economically viable. It is disappointing that something those in the industry have supported for years and years, the development of a pulp mill, to utilise the resource locally rather than export it, and now we have the pulp mill proposal that is committed to plantation base only so that really doesn't offer us the future to sustain the utilisation of the total output of a native forest. Maybe the woodchip export industry was reaching the end of its strength anyway because of plantations from other parts of the world, and I know from my association with the pulp and paper industry that plantation wood was more attractive for making paper than native forest. It is inevitable that there will be a combination of the way in which the environmental argument that has been put to the potential use of our chips with the economics associated with using native forest wood. It could be an industry on the way down anyway but there are other opportunities emerging, as I said, in bioenergy.

CHAIR - Will they emerge quickly enough? That's the question, I suppose.

Mr KING - If the resource owners and the governments of the day say, 'We want this to happen', it will emerge a lot more quickly than if people are constantly confronted with the risk of having their business shut down by unscientifically-based opposition to the sensible use of forests.

Mr CORNELIUS - Unfortunately, it seems to be unacceptable to the ENGOs to use native forest residues for any biomass use. I have personally participated in an FSC workshop and met with representatives of FSC in Australia on the board and some of the members said to me that they find it unacceptable that biomass could be used in native forests in Tasmania. Surprisingly enough, I have spoken to the head people of FSC from Germany from, I believe, the head office, and they had no problem with it. It's commonly accepted, certified forest -

Mr HARRISS - Are you meaning the Forest Stewardship Council?

Mr CORNELIUS - Yes, the one that the Greens tend to go more for.

Ms RATTRAY - So that is a mixed message then?

Mr CORNELIUS - It's a local message. It's just anti-logging or anti-forestry, potentially in Tasmania or Australia. But in Finland and other countries in the world it is totally accepted. They make different things. I don't know the facts of all of that so I won't go into it, but it wasn't an issue. They said there would be no restriction but the locals would try to knock it on the head, so it's going to be a pretty hard hurdle and it's very important to us that we retain our right, at least in our private forest, to be able to use residues if we lose the chip market.

The first one is lack of consultation. I think that is common knowledge.

Ms RATTRAY - I believe a key industry group met at Campbell Town and there were 86 representatives; was your group part of that meeting?

Mr CORNELIUS - Yes.

Ms RATTRAY - It talked about the lack of consultation by the round table process, for want of a better word.

Mr KING - Are you talking about the Tree Roots group?

CHAIR - Yes.

Mr KING - I was certainly there.

Mr CORNELIUS - I was there.

Ms RATTRAY - So at that particular meeting your group was well represented?

Mr CORNELIUS - Yes.

Ms RATTRAY - To put forward your position?

Mr CORNELIUS - Yes. I don't know what exactly is happening with them. I had some e-mails from them and they have slowed down now, unless behind-the-scenes things are happening.

Mr WILKINSON - It has been brought up before that Finland rely on their forestry industry a lot, and Chile does as well in the Valdivia area, so are there any other areas which have forestry industries where there is just no agitation surrounding them?

Mr KING - I do not know about no agitation but in seeing sustainable forest management encouraged in native forests we had a gentleman out from Denmark in late 1970s to buy up quite a bit of forest land. I take it he transferred to Tasmania their way of dealing with native forests - Alan Ashbarry.

Mr CORNELIUS - Yes, and I have actually purchased some of his property.

Mr KING - He is a member of the Toll Group. I was with Northern Woodchips, which later became Forest Resources. Our company was based solely on private land for most of its existence and that landowner had a big influence over our foresters taking on this approach to encouraging landowners to manage their native forests in a sustainable way, rather than simply log it and let the landowner decide what he wanted to do with the land after. So I would say Denmark also.

Coming back to Mark's comment on FSC, one of my first associations when I was with Private Forests Tasmania with the Tas Oak Growers group was when they thought of pursuing FSC certification. They came to me to get advice and guidance. We talked to various people within the environmental movement in Tasmania and they received support from the Tasmanian Conservation Trust to pursue that particular approach. Peter Downie now has FSC certification. When that happened quite a few of us who were giving them support to pursue that particularly certification were sidelined a bit by other people in the industry and the government who said, 'We do not want that; that is the Green movement certification'. The reason Tas Oak pursued it was that they saw it as insurance. They could see future access to native forest being further restricted and so if we can get a certification system up that has the support of the environmental movement than that puts us well in front. So the opposition in Australia to certify native forests is only within a certain element of the environmental group - the hardliners who want nothing else to occur than to see forestry cease.

CHAIR - What percentage of private forest estate would have FSC certification - a very small one?

Mr CORNELIUS - Very small.

Mr KING - Peter's is a big property, of course, but it's a costly exercise. He decided he wanted it and pursued it. Of course there was a lot of publicity last year associated with it being announced and that he achieved it.

CHAIR - Who were the auditors of that?

Mr KING - I don't know.

Mr CORNELIUS - You can have different auditors. I think Gunns are getting audited now.

Mr KING - The same group has also supported a national approach by the forest industry to achieve group certification under the Australian Forestry Standard. The reason they supported that was that, if you are going to have a good certification system, it's going to be more economically acceptable if you can do it via a group rather than each individual having to go through the whole process. We've been advocating for, and I think the State Government has set aside money which they haven't yet allocated specifically to the task but has been set aside to support, Private Forests Tasmania to become a manager of group certification. That would be under the AFS or PEFC, which I think AFS is now linked to, which Toll is equally supportive of.

CHAIR - With the term of reference concerning the impact of the transition out of native forest harvesting, give us a snapshot of your view on that, particularly with a proposed further lock-up of 572 000 hectares.

Mr KING - As I've said, to take advantage of the industry opportunities to develop you may need all of the resource that is available in the State to justify the expenditure. If we continue to restrict the amount available, and particularly take all the public resource out of the system, then you may well scare off a developer who is prepared to come here and invest in development. We have pluses and minuses. It is very disappointing to see what's happened to our woodchip export sector. On the other hand, Ta Ann have created a market for a log that is below sawlog grade - a bit above pulpwood grade but certainly it intrudes well into the pulpwood specifications. I think if they can secure access to additional resource then they will expand even further. I don't think they are going to just confine their development to the two plants.

CHAIR - What about the environmental impacts of further locking up?

Mr KING - I think if we look at what's happened in other parts of Australia where they've walked away from their native forest and just let them stand there, a bush fire comes along in a bad year and you can see the negative environmental impacts associated with non-sustainable management.

CHAIR - I suppose you could argue that unfortunately we do get El Nino years, dry years and wrong weather conditions, and even in a well-managed forest that can still happen. Are you saying that if the infrastructure is still there it certainly helps combat that?

Mr KING - We're representing private forest owners today. The majority of private forest is dry sclerophyll forest and therefore it can be managed on a selective logging rotation. If you go on these gentlemen's properties, they have trees ready to be harvested, trees half-grown and regrowth. When they harvest they will take out a third of the crop and the other two-thirds will grow on and a new lot comes. That is environmentally very attractive. I have taken people, when I was PFT, to look at these forests - people from other parts of the mainland - and they couldn't believe it. They see deer running through, and kangaroos, and yet the farmer says, 'I've just harvested *x* thousand tonnes of wood'. Unfortunately with all our public forests, which is largely wet sclerophyll forest, it has to be treated differently. Whenever somebody wants to show a negative forest activity, they show a recently clear-felled and burnt public forest. It is not that the public forests don't do it right and the private forests do; it is a different type of forest. The forestry issue is very complex.

Mr CORNELIUS - It is one of the things that I want to touch on. You were asking questions about the environment. One thing that I will go back to is that we are somewhat neutral as to whether this 572 000 hectares gets locked up. We do not know if it is going to be really bad for us or good. But you asked a question about the environment. Quite a few of the TOG members have actually entered into these schemes with the Government in locking up land. I have, off the top of my head, 1 500 hectares in conservation caveat in perpetuity in an estate of about 8 000 hectares. That is what is locked up and then on top of that you have what is locked up in Forest Practices plans in areas that you want to harvest in. Des has covered the issues there.

CHAIR - Can I interrupt you there for a second, Mark. Do you think that if there is further lock up of the public native forest estate then that is going to put more pressure on you guys, the private forest owners, because that is also where most of the conservation values and biodiversity values are?

Mr CORNELIUS - We do not know because if all the State forest gets locked up, we do not know how much ability to market wood there will be. Maybe people will just pull out of Tasmania. Who would want to invest in the timber industry in Tasmania right at the moment? It is hard to say. I have to be careful what I say with regard to the terms of reference and that but I have met a gentleman from Queensland and he said that when they locked up a lot of the native forest in Queensland the private landowners never had it so good. There was a demand for high-quality sawlog and there was not the quantity there because they had shut up the public native forest. So there could be advantages for private landowners. We are somewhat neutral but we are aware that there is potential if there is nowhere to sell our other products - we just do not know where it is going.

CHAIR - Okay. Did you want to continue there, did you want to say something in that other vein that you talked about before?

Mr CORNELIUS - Yes. I was talking to a substantial landowner member this morning. He said that we have to be careful about what would happen or what is going to happen possibly anyway to we private landowners because of the Forest Practices Authority and what is happening by default of locking up our forests anyway in closing down our ability to harvest wood on our own land and also return jobs and wealth to the local economy.

Originally, I am talking about recent history, you had a duty of care to lock up 5 or 10 per cent of your property in a timber harvesting plan. Say you had 100 acres, 10 acres would have to go into conservation; it might be creek reserves, it could be an eagle's nest or the edge of an eagle's nest, it could be a threatened species. But what has actually been happening over the last few years, and I have noticed this myself in the short time I have been in it, is that it is getting more restrictive to get a timber harvesting plan. If it keeps on going the rate that it has in the last 10 years, I think that it will be nearly unviable for us to log in another 10 or 20 years. There are already vast tracts of land that are getting locked up because of so-called -

Ms RATTRAY - Because of the compliance that you already have to abide by.

Mr CORNELIUS - There's just blanket lock-ups. There's not a lot of science in it, is there, Des? They have theories about orange-bellied parrots and things like that. You'd know, Paul, from down in your area with all the globulus forests. A lot of the private landowners are being affected by that. What we are concerned about are some of the real issues. Regardless of what happens - and I think it would even be worse if this 570 000 hectares was locked up - it might not be viable for us to harvest in the future anyway. We have a real concern about that. There is something happening right at the moment, this carbon thing. You might have heard of red forests - there has been a bit of media coverage about it. Some big private landowners in Tasmania are putting their forests into carbon right now. With the red tape and all the uncertainty these guys are signing up to put their large estates into private native forest, and it's happening right now.

Mr WILKINSON - How much do they get for it, Mark?

Mr CORNELIUS - It's not proven yet, but I have heard $15 a tonne for carbon. From what I understand, that equates to about 1.25 tonnes of standing harvestable volume - you get the heads of the trees. Some guys and some of the TOG members are going that way and there won't be any jobs in the future. It is good that the forests are going to be locked up for 25 years; there will be no -

CHAIR - It's only 25 years, not in perpetuity?

Mr CORNELIUS - Not in perpetuity.

Mr WILKINSON - So if the Government now decides to lock up our public native forests that means, does it not, that the State can't get the value of what may be a carbon trade-off at a later stage? If they lock it up now, that will not be available in years to come, or at least over the next 25 years?

Mr CORNELIUS - There are potentially different schemes. I am not an authority on this but I do know a little bit about it. On the public forests, I don't believe it can be done on any land that is already locked up for some reason. It's only to avoid deforestation and it is really set up to protect Indonesian rainforest and things such as that, but it seems to be able to happen here in Tasmania, too.

Mr WILKINSON - So let's say the Government said, 'We're going to lock up *x* thousand hectares of forest now', that could well be stopping the State from getting a significant amount of money in years to come because they have locked it up.

Mr CORNELIUS - Yes, certainly. I don't know where it comes in the political area - then we have the Federal Government carbon and we don't know where that's going to go - but I can only speak about this scheme at the moment. From what they have led me to believe, businesses buy credits on an open market right now. If you buy an air ticket, there's a little box you can tick and pay a few extra dollars to fly carbon friendly, and that's what is happening.

Ms RATTRAY - Mark, because of the uncertainty around the future of the industry and particularly in relation to the potential of more native forest lock-up, have you changed the way that you are managing your business in relation to farming and farming of trees? It is changing or is it no different from what you probably would have done?

Mr CORNELIUS - I am looking at carbon right now. I haven't done much harvesting because of the poor market situation over the last few years. Once those forests are locked up, for the next generation no-one will earn any welfare out of it, apart from a bit myself. There will be no jobs.

Ms RATTRAY - So this uncertainty has certainly changed the way you are looking after your own personal property with your trees and timber?

Mr CORNELIUS - It is, but I know that other gentlemen, even TOG members, from what I understand, have already entered all their properties into it.

Mr WILKINSON - What is the loss for that, Mark, when you compare it with the average funds they were getting when they were working their native forests with logging?

Mr CORNELIUS - It just depends. The sad thing about it - and Des touched on it - is that our forests were poor quality and now, because of the woodchip industry, which was good at the time for responsible private landowners, a lot of the TOG members have really high-value forests now, lots and lots of high-value trees, either peeler trees or sawlogs, and all the culled trees which would be the woodchip trees have been taken out of it and they are all standing there. They have potentially good returns to the economy with sawmill jobs but some guys just think it is too hard with the uncertainty and it is just dragging on and on.

CHAIR - So even though on one side you get a positive return from the carbon lock-up, under the agreement no doubt you still have to manage that forest for 25 years in that lock-up. What costs are involved there?

Mr CORNELIUS - You could throw away the key.

Mr KING - It would be more lost opportunity than anything else.

Mr CORNELIUS - Yes, it is a lost opportunity to the State. The landowner will make money. It is a terrible thing to happen but it would be a lost opportunity to the State. I might make money, a TOG member might make some money, and I will spend it, of course, but there will be no jobs or only very indirect jobs.

CHAIR - Mark and Des, we are getting towards time. Are there any other questions?

Mr CORNELIUS - I want to talk about one thing in private.

CHAIR - Okay, we will do that.

Mr CORNELIUS - It is still a sensitive thing and is about Forestry Tasmania. I have been the main marketing man for Tas Oak Growers in the last few years. We've found it very hard to be able to get a good return from our forests. I fully understand about the sawlog agreement, to keep sawmillers in jobs.

CHAIR - Sorry, I will just hold you up there. Do you just want to talk about FT and your dealings with FT? The committee has to make a determination as to whether you ought to give that evidence in camera, so we are not going through the full business at this stage. You must bear in mind also that any evidence you give in camera we cannot reflect in our report - or we can, I suppose, obliquely, but we cannot be very specific.

Mr HARRISS - That is a matter that either the committee can make its own decision about or indeed, the Legislative Council, as a whole, can make its own decision as to evidence given. My contention would always be, as a committee member, that we would never move to that position without contacting witnesses but bear in mind that it is in our hands, under the Standing Orders of the Legislative Council, to in fact make our own decision as to whether that evidence ought to be referred to in a report. I do not think we would ever go down the track in a report of saying, for example, 'Mark Cornelius said that Greg Hall is a crook'.

Mr CORNELIUS - While I have you gentlemen together I just wanted to talk about some things I have been too frightened to say in the past, but because there's been so much turmoil and history, it's about time these things were said to give you the other side of the picture.

CHAIR - Yes, so you feel uncomfortable about mentioning or talking about that in open committee - is that what you're saying?

Mr CORNELIUS - Yes.

CHAIR - Okay. You have no problem with it, Jim?

Mr WILKINSON - No, no problem there at all.

Mr HARRISS - Mr Chair, I share Jim's view. Given the sensitivity of where the industry is I don't have a problem, given a quick snapshot of where Mark is wanting to travel, that we take it in camera.

CHAIR - We will have to be quick.

Mr CORNELIUS - It will only be a couple of minutes.

CHAIR - Okay, thank you, go for it.

Evidence taken in camera.

CHAIR - Des and Mark, thank you very much for coming to give evidence.

THE WITNESSES WITHDREW.

<u>Mr SCOTT ARNOLD</u>, DIRECTOR, AND **<u>Mr GERALD MATTHEWS</u>**, ACCOUNTANT, ARTEC, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Hall) - Welcome, gentlemen.

Mr MATTHEWS - The complete transitioning away from native forests straight into plantation I think is going to have a very negative effect on the community as a whole and the maximum utilisation of our resources. Undoubtedly we need some growth in Tasmania and some quality management of all our resources, being some regrowth timber and plantation timber. I think both sides of the business should be able to continue to grow and prosper, however I don't see that happening with the current strategy and management.

CHAIR - Are you concerned about the current roundtable process?

Mr MATTHEWS - Absolutely.

CHAIR - Gerald, you're an accountant, so you might just describe your business. It is a vertically integrated business, as I understand.

Mr MATTHEWS - It is a fully vertically integrated business covering harvesting, transporting, exporting, sawmilling and the sale of sawlogs as well. So we are involved in all aspects of the timber industry.

CHAIR - How many people do you employ in that integrated business?

Mr MATTHEWS - We would be directly employing about 112 at the current time. We have approximately 200 direct contractors, creating indirect jobs for a further 500 approximately.

CHAIR - So around 800-odd people are potentially impacted upon?

Mr MATTHEWS - Yes, it's a significant industry for Tasmania, given the number of jobs we have lost with our manufacturing and so on.

CHAIR - You have a woodchip licence at the moment and you're still exporting woodchips?

Mr ARNOLD - Exporting overseas, yes. We are currently buying all the sawmill residues off all the sawmills in the northern half of the State, right through the north-west through to Britton Brothers in Smithton. It is all being transported through to Bell Bay. We are even buying sawmill waste residues from Gunns at this point in time, from their sawmills. There are Barber's, Longford, Bardenhagen and our sawmill at Lilydale. We have just bought another sawmill at Remount Road to step into the downstream processing so that we can kiln-dry and machine our own timber and sell it to the Melbourne, Sydney and Tasmanian markets.

Mr WILKINSON - Has your business suffered in recent times because of the problems in the industry?

Mr ARNOLD - My word!

Mr WILKINSON - Can you expand on how it has suffered?

Mr ARNOLD - About two or three years ago with the global financial crisis, the price of overseas woodchips fell dramatically, and then with the high Australian dollar we have become uncompetitive on the world market. They grow plantations for four to six years in the Asian regions and they have a turnover of four to six years, whereas in Tasmania we are more than double that for our own plantations. Our Australian dollar has just killed us.

Mr WILKINSON - So one could argue that it's not the uncertainty in the industry from getting out of native forests that is causing the problem; the problem is the Australian dollar and the GFC.

Mr ARNOLD - I think we're over the worst of the GFC and some of that is behind us. The Australian dollar is not going to stay where it is forever, things will turn around, but things are not going to improve much until there is a pulp mill in Tasmania or the dollar eases off a little bit to make us competitive again on the world market.

Mr WILKINSON - Are they the only improvements that you can see in the industry - if the pulp mill gets up and/or the dollar is down to a competitive figure?

Mr ARNOLD - We need industry in Tasmania, and this is my own personal view here, I might add. Whether you agree with the pulp mill or not, we need industry in Tasmania and I have been all over the world and looked at everywhere else and we have the most beautiful natural resource here in the world and we're doing nothing with it. We need to do something with it here. We need to downstream process in Tasmania. We need to create jobs for Tasmanians. We need to keep the money, if you like, in Tasmania. There can still be some export woodchipping but nothing to the extent of what there has been in years gone by. We have to get some industry to get some stability back into the Tasmanian timber industry.

Mr MATTHEWS - Our plantation timber, like a lot of our other produce, is really going to be absolutely first-grade and the downstream processing was always going to be at a high-end level. I think we still, once again, have that opportunity here in Tasmania to be at the high-end level and maximise our quality and also come back in at the other end and resell what we call a longstanding crop, as in our regrowth. That still enables a lot of our natural beauty to be tied up because there is enough for all of us.

CHAIR - Yes. I suppose the fundamental bottom-line question - and it goes right to the heart of what we are talking about here - is the impact of the transition. If there is a total transition out of native forest harvesting and the ability to harvest and manage native forest in Tasmania, what does that do to you? Does it close you down?

Mr ARNOLD - We close down, we're gone.

CHAIR - Shut the doors?

Mr MATTHEWS - And turn the lights off **-** absolutely.

CHAIR - And potentially you say around 800 associated jobs will go.

Mr MATTHEWS - Yes, and many millions of dollars of turnover coming in with significant growth if we can keep a sustainable business going.

CHAIR - Yes. Even if there was not a total transition out, and we talked about the 570 000 hectares or thereabouts of HCV forests, what impact would that have at this stage? Nobody has been able to tell us yet what an HCV forest is, by the way.

Mr ARNOLD - That's what I mean, we don't know what we're talking about.

Laughter.

Ms RATTRAY - It has been mentioned before.

Mr WILKINSON - So you don't know which target you're shooting at, do you?

Mr ARNOLD - I will stand corrected on this, but isn't 78 per cent of Tasmania's public forests already locked up?

CHAIR - I'm not sure about that. I don't know.

Ms RATTRAY - I think it's more like 40 per cent.

CHAIR - Of the public native forest? I am not sure.

Mr HARRISS - If you factor in reserves, like creek and riverside reserves and inaccessible areas, it is more like 51 per cent.

Mr ARNOLD - Righto, there you go, we've got half the place locked up now, so do we need any more? You can see where I'm coming from. I think we have one of the highest reserve systems in the world in Tasmania and I don't believe that we need to lock up any more, to be quite honest with you. All right, if it's maiden bush and has never been cut, keep out of it - why do we need to go back into something like that? We can go back and farm what has been cut before and just keep going over and over it. If it's done properly, there is no reason why there can't be sawlogs there forever.

CHAIR - Do you feel left out of the round-table process? Have you had any representation or through any other larger body at all with this?

Mr ARNOLD - I was invited down once and that was it.

Mr HARRISS - In the development of the statement of principles?

Mr ARNOLD - Yes, that was at Christmas time.

Mr HARRISS - Did you meet with the large group?

Mr ARNOLD - There was a large group there, yes.

Mr HARRISS - What was the purpose of your invitation? Did they invite you to state your views?

Mr ARNOLD - Bob Gordon rang up and just said that he'd like to see me down there so I thought it would probably be in Artec's best interests if I did.

Mr HARRISS - Did you get a chance to put your point of view at that meeting?

Mr ARNOLD - Nothing really came out of the meeting, to be honest with you.

Mr MATTHEWS - Artec would still be the largest independent exporter in the State and during the global financial crisis and the downturn in prices we chose to continue on and suffer a decrease in profitability just to maintain the employees and contractors.

CHAIR - But on the other hand, as Scott has mentioned, things do change, dollars go up and down and demand increases again.

Mr ARNOLD - Exactly.

Mr MATTHEWS - And we've worked every efficiency that we can get out of the industry from our side.

CHAIR - Yes.

Mr ARNOLD - But with logging contractors you can't just go and pick them up off the street; they're people who have been in it for generations. Their fathers and grandfathers were in it and they have carried it on. When these logging contractors, the people who work in the bush, get out of the bush, do you think they're ever going to go back to it? People are getting their fingers burnt now and they're getting out, so what is going to happen here, if we can't look after the people who are in the industry a little bit when the industry does right itself, there is going to be nobody left to service the industry so we won't have an industry. That's the way I look at it.

Ms RATTRAY - Scott, with 36 years in the industry, have you seen things as bad as they are now in terms of providing employment and underpinning our economy, as the timber industry has done for so long?

Mr ARNOLD - It would have to be the worst I have ever seen it in the whole 35 years that I can remember in the industry.

Ms RATTRAY - Following on from that, do you know of any areas, and your business may be one, where people are shy of investing in new technology or any of those aspects of their business because of the uncertainty around the industry?

Mr ARNOLD - There is no certainty whatsoever in the industry at this point in time so nobody I know off is investing in any new technology or anything, and you can't blame them.

Ms RATTRAY - Does that go for yourself as well?

Mr ARNOLD - I'm holding back as much as I can. I don't want to spend any money because I don't know if I am going to get a return.

CHAIR - Even if there was a 20-year transition period - let's pluck a figure out of the air - that is still, in your view, too short a time frame to start making new capital investments in the short term to keep going?

Mr ARNOLD - If you knew it was 20 years you could work around the 20 years to make sure that you were right and had all your stuff paid off at the end of that time. But you would need 20 years or more, I would say, from this point going forward to give people confidence to go out and borrow money to go and do a job and then know that in the back of their mind they could have everything paid off and step away, if you like, in 20 years' time. I myself am still of the personal opinion that we don't need to move away from native forest logging.

Mr HARRISS - Except that some would contend that there is not a market for native forest product because, in the words of others, the overseas markets have been sabotaged to the extent that demand has diminished markedly. Is that your experience?

Mr MATTHEWS - Definitely not. We can expand on that but we would only ever do that in confidence.

CHAIR - You cannot give us a general idea?

Mr MATTHEWS - No. There are huge opportunities out there if you go out and source them.

Mr WILKINSON - This is for native forest?

Mr ARNOLD - Yes, for native forest.

Mr WILKINSON - For the chips?

Mr MATTHEWS - For the chips and the timber. That's why you need to be a completely vertically-integrated operator.

Ms RATTRAY - And not have Gunns attached to your name, would that be fair to say?

Mr ARNOLD - Yes, probably.

Mr HARRISS - This committee will make its assessments of the various contributions that have been made in terms of markets drying up and markets not drying up. In that context then - and you have been in the industry a long time, Scott, and your family, not just you - what do you say to this position, which is currently on the table, of identifying high conservation value forests to deliver this further $570 000 -

Mr ARNOLD - Hectares.

Laughter.

Mr HARRISS - Thank you.

What do you say to the suggestion that there is an incredible lack of science around that? You have been in those forests, you have probably logged some of these forests which are now on the maps as HCV. Are there any of those currently on the maps as HCV that you have previously logged?

Mr ARNOLD - Yes, there is.

Mr HARRISS - And how long ago?

Mr ARNOLD - Twelve months ago. I have only put a road line into one and now they have knocked it all out. I think Forestry Tasmania spent a fortune putting a road in there and it has just been knocked out. These coupes are not far from here, up the back of the Camden up here, but we have to get a definition of a high-conservation forest before anyone here or myself, before anyone knows what we are talking about. There has to be a definition of a high-conservation forest. What is it? Give me the definition of a high-conservation forest.

Ms RATTRAY - I do not think the people who actually proposed that terminology know.

Mr ARNOLD - Then someone needs to set up a set of rules of a high-conservation forest and then it needs to be voted on so we know what we are talking about because we still do not know what we are talking about. There is no set of rules. If I am in a 60 kilometre an hour speed limit zone and I do 70, I get booked for speeding. We have set the rules at 60 and it is speeding at 70 but there are no rules set on a high-conservation forest. There are no rules.

Mr HARRISS - You would be aware, Scott, that under FSC and other certifications logging is not prohibited in HCV forests; it is about management of those values.

Mr ARNOLD - It's the way a higher-conservation forest is managed in its logging. It is a bit like I said before, you can farm them just like growing a crop; you go and get all the old ones out and you nurture the young ones, you bring them through, you take the high-value sawlogs off it, you clean the pulpwood up and you just let it keep going. You do not hit it too hard and you can keep going back and back.

Mr HARRISS - Compared to what is being proposed here to actually lock up that which has been suggested as HCV some scientists would even contend that we are already properly managing high conservation value forests in Tasmania anyway.

Mr ARNOLD - I think we are.

Mr HARRISS - We are looking after the conservation values.

Mr ARNOLD - I think we are. I think we are looking after them, I really do, because every single thing is addressed before you can go logging in the forest now. Everyone thinks we are going to go and log that block over there so we start planning and in four or six months' time after you have jumped through every hoop imaginable - and there is getting to be more and more of them all the time - then you may go and log that forest or you may not; you might have to go somewhere else because we have swift parrots or we have some other problem there - an eagle's nest or something.

Ms RATTRAY - Don't forget the burrowing crayfish.

Mr ARNOLD - That's it. That is only on tributaries that empty into Bass Strait.

Mr WILKINSON - I hear what you say. Really what you are saying is - and I have said it on a number of occasions over this committee - what is high-conservation forest? We don't know.

Mr ARNOLD - We need a definition.

Mr WILKINSON - Your simile is a good one: thou shall not speed; all right, what speed can I do? I don't know. So you never know really what is speeding and what is not speeding -

Mr ARNOLD - Exactly.

Mr WILKINSON - because it has not been identified and it is the same thing in relation to high-conservation forests. That has never been identified so you do not know what they are talking about and before anything can properly happen there should be some parameters put in place so you know what people are talking about and you can plan accordingly.

Mr ARNOLD - Exactly. Well said. That is it exactly because if you have no speed limit there you cannot get into trouble. It is the same difference isn't it?

CHAIR - Did you want to say something in private?

Mr ARNOLD - Yes, we did.

CHAIR - We will finish off what we're doing here in the public hearing.

Mr WILKINSON - I bring you into the State and say, 'We've got a problem in Tasmania with our forest industry'. I try to restrict you to this, the impact of transition of public native forest management and harvesting in Tasmania. What do you do? Where do you start?

Mr ARNOLD - Exactly. Love them or hate them, tell me what Forestry Tasmania could have done any differently? I will sit back and think they should have done this or that or something else, but at the end of the day from where they were making the decisions up the front, could they have done anything much better? You can bang them over the head as much as you like, I don't think there's much that they could have done. The Australian dollar is not their fault; the overseas markets are not their fault. I think they are just part of a victim of circumstances, and that is being quite honest.

Mr WILKINSON - So you are saying the status quo should remain?

Mr ARNOLD - Yes.

Mr MATTHEWS - I think we do need to have this sustainable regrowth industry - we call it native bush or regrowth - mainly for exporting the lower grade into woodchips and for the sawlog industry. Otherwise, where are we all going to achieve our jobs in Tasmania? We need some manufacturing and downstream processing.

Mr WILKINSON - People would say, 'Don't come to me with the problem, come to me with the solution'. If the status quo is to remain, people are arguing now that they are going out the door backwards therefore something has to change, what can we do to change it?

Mr MATTHEWS - If we had some confidence within the industry and guaranteed a supply, I think there is a strong growth period ready for the industry.

Mr WILKINSON - But there's not that guarantee of supply is there at the moment?

Mr ARNOLD - No.

Mr MATTHEWS - That's it.

Mr WILKINSON - And what is the reason for that, the world market and the Australian dollar?

Mr MATTHEWS - No, the locking up of the timber. We have overcome most of those other hurdles.

Mr WILKINSON - So it's the locking up of the timber that is causing the problem with supply. If the locking up of the timber was taken away, you believe you would be able to sell the product overseas and continue on as you are?

Mr MATTHEWS - We could continue on but at a profitable level, even with the Australian dollar being high. It has taken some of the gloss off but it has forced us to now deal with the internationals on an Australian dollar basis instead of the US dollar but we would have an ongoing sustainable industry and employment.

Mr HARRISS - On the back of Jim's proposition, the matter of security of supply, currently Forestry Tasmania is required to deliver 300 000 cubic metres of high-quality sawlog. If there is a pulp mill developed by Gunns and let us assume that they are taking about 50 per cent of that 300 000 cubic metres and if the Government then came to the Parliament with a proposal to reduce the 300 000 cubic metres back to 150 000 cubic metres, is 150 000 cubic metres still a reasonable mandated high-quality sawlog provision to the industry or does it need to be more than 150 000 cubic metres with Gunns out of the equation?

Mr ARNOLD - My own personal opinion, with Gunns out of the equation, it is somewhere between 150 000 and 180 000 cubic metres.

Mr HARRISS - We haven't even heard that as part of this statement of principles, nor any mention by the Government.

Mr ARNOLD - That's my view.

Ms RATTRAY - Scott, you touched on the regulations around putting in a forest practices plan or application. Do you think that the level you have to comply with is going to be a deterrent in the future or do you think if we could leave it as it is now that the rules are stringent enough?

Mr ARNOLD - I don't think it needs to be made any harder. I have people who want to sell timber to me and I think, 'I'm sorry, it's too hard. We won't bother with that'. It's too hard and too expensive to put a plan in. I have heard of forest practices plans costing up to $8 000.

Ms RATTRAY - With no guarantee of an approval.

Mr ARNOLD - Yes, just for the planner.

Ms RATTRAY - So that would have to be an impediment on doing your business as you would have done in the past?

Mr ARNOLD - Yes, it is.

Mr HARRISS - Scott, on the flip side of that, if we are to retain a sustainable industry, isn't it a reasonable proposition that proper scientific proposals in terms of sustainability ought to be produced before harvesting?

Mr ARNOLD - Yes, up to a point. I think what happened was that the Forest Practices Act started off and we have just added to it until it is nearly impossible to get a timber harvesting plan through now.

Mr HARRISS - Except to say that we have the best logging regime in the world, according to some.

Mr ARNOLD - Thank you, that's right, but we need to stop somewhere. We don't need to be going down the track of making them too much more complicated than they already are. I think we have already achieved what was set out to achieve in the first place. There were actions years ago that weren't the best and everyone has cleaned up from there, so I think we are about where we need to be. We don't need to make it any harder. Forestry can get them through because they have people there all the time, but a private landowner who goes to sell some timber volume to a timber customer finds it very hard. The timber customer has to do the plan for them, usually, because they don't have the means to get to the people who are qualified to do it.

Ms RATTRAY - It's a skilful job, and rightly so.

Mr ARNOLD - Yes, I agree.

CHAIR - Thank you, gentleman, for your evidence. We appreciate your time.

<u>THE WITNESSES WITHDREW</u>.

Mr GREG L'ESTRANGE, MANAGING DIRECTOR, AND **Mr CALTON FRAME**, CORPORATE RELATIONS MANAGER, GUNNS LIMITED, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Hall) - Thank you very much, gentlemen, for giving up your time and coming along today.

Mr L'ESTRANGE - Gunns Limited has a long history in the industry and we believe that the industry has a future, but for a number of reasons Gunns Limited has made a decision that it needs to leave the native forest industry. The decision and the transition that is happening in the industry is significantly impacting on all the players in the industry from employment, community and overall company health points of view. Gunns' decision to exit native forest was predominantly driven by the fact that some two to three years ago it had become increasingly evident that the major sources of capital for companies of the scale of Gunns had a significant change of view of the industry and those participants in it. Also, our major shareholders and lenders made quite a straightforward position that participation in the native forest industry in Tasmania would not be consistent with their support going forward. That would be either in the form of withdrawal of our debt finance or the withdrawal of their support as a shareholder. So for companies of our scale and size it just make it impossible to operate where those conditions are evident, hence a decision to move the Gunns Limited business from the traditional native forest industry to plantation-based industry.

Also supporting our decision to move from the market were some significant changes that had become evident over the previous decade, or longer in some cases. Demand for native forest woodchip has been in decline since 2003 and that really became evident towards the latter part of this decade, but the signs were really there in the early 1990s to 2000 where our customers planted significant amounts of plantation eucalypts in various parts of the world in striving to be more self-sufficient in their own fibre and hence they had moved a large part of their demand towards that product, which is higher quality plantation-based product which they have more control over. They were able to achieve certification in that product through the predominant certification body - being FSC.

The third point for our decision was that consumption in Australia of native forest hardwood and sawn timber has been in decline for over 30 years. The current decline from over three million cubic metres of consumption of hardwood in Australia to less than one million cubic metres in the last year has been both consistent and dramatic and the market for hardwood is really one that is now the predominant part of what we would call the decorative market and that requires a high degree of appearance rather structural outcomes.

The fourth point is that Gunns Limited, if it was stay within the native forest industry, would have to make significant reinvestment in all the facilities which would be required to ensure that as an operation it was competitive in scale, competitive in the processing capability which the facilities that it has today are not and it would require tens of millions of dollars to reinvest to bring those to a competitive standard.

That, linked with the uncertainty around future volumes, the uncertainty around future quality and the absolute requirement for certification as a sales tool made a decision to exit native forest compelling and virtually a requirement for the organisation going forward. To do that, we sought to work within the industry groups to come up with an overall outcome where the industry could restructure in a structural way, could restructure in a way that ended the conflict that had been evident within the community for a long period of time and, hence, have an industry - although Gunns would not be part of that in the future - that would be able to redevelop with some certainty around supply, certainly around its future to get the overall outcome for the Tasmanian industry. We still remain uncertain about whether that will be the future that is achieved or not.

Largely, Gunns are on a path of exit. We will see that in the course of, we believe, the new term we will move from participating in the harvesting of native product but it will be some period of time before we have fully withdrawn as we run down the inventories that are within the process of all our operations.

CHAIR - Greg, just as a matter of interest, do you have a time frame on that?

Mr L'ESTRANGE - We would like to resolve this in a holistic way. There are many other parties that we are working through that process with so that there is a future that can go forward in a format for the industry to be sustainable. I do not have a defined time on that for Gunns Limited. It would have been our preference for recharting our future to have been out of the industry probably six to eight months ago but we believe that it is in everyone's interests to get a holistic and structured outcome for the industry.

The trail out for processing facilities, such as Lindsay Street here in Launceston, if logging was stopped, is an eighteen-month process before inventories work through the system.

CHAIR - Certainly I accept, and you have made it very public, your decision to get out of the native forest component of the industry but you would also accept that there are many other players in the industry who still do see a future there and rely heavily on that native forest resource and that is what this term of reference is all about, the impact there upon what may happen if there is a total transition out, as we talked about, or a transition out as per the statement of principles. So you would recognise that there are other players out there who have a significant interest in that resource still for some years to come?

Mr L'ESTRANGE - We have stated that publicly and on the record that we believe that this is not a decision around the science of native forest, this is a commercial decision that Gunns have taken -

CHAIR - Yes, yours is a commercial decision.

Mr L'ESTRANGE - and that we still believe that a holistic end to the forest wars, if it could be achieved, would be a good outcome for those people who wish to participate going forward in the industry for one reason. We more than anyone else have been at the forefront of the brand issues around the product and we know the impact that it can have on both customer relations, your financial partners, your employees, so we more than anyone encourage the industry to see if they can come up with a holistic and sustainable outcome; a resolution to what is a very difficult issue for the longer-term business strategy that they will have to put together.

CHAIR - But there are, as I mentioned before, components of the industry who do not want to see a transition out of native forest harvesting. They want to be able to remain in there; they want to still be able to access that resource. You could understand why they would want to do that.

Mr L'ESTRANGE - We wish them luck. Ours is a commercial decision, we know what the issues have been so we are not casting aspersions or a judgment on what they will or will not do. We have made our decision but we would caution them.

Mr WILKINSON - The terms of reference, as you can see, is the impact of the proposed transition out of the public native forest harvesting and management in Tasmania and Gunns have been involved in it for many years. What do you believe the impact of it is going to be?

Mr L'ESTRANGE - Largely it will depend on what will be the sustainable forest area that will go into the production longer term and the type and volume of resource that will be then available which will then structure how many facilities will be required.

Mr WILKINSON - You believe that there is still a future in relation to native forests, though, don't you, within Tasmania?

Mr L'ESTRANGE - I think there are trees if they are not reserved that are available for logging and processing and provided they can be competitive in the industry from a delivery to the end customer, there is an outcome there. By way of an example, we still have a facility that we are operating in Victoria that currently processes around 155 000 cubic metres of hardwood on an annualised basis. We currently employ, I think, 195 people in that facility in total, from the sawing through to the finishing in high value-added value. It is highly efficient with the technology that is available today. Through some modest reinvestment we will probably be able to process that total volume, 155 000 cubic metres, with less than 140 people.

Mr WILKINSON - The mantra, for want of another word, at the moment in relation to native forests seems to have gone from old-growth native forests to high-conservation forests. One of the witnesses before said you could be charged for speeding and you ask what the speed limit is and nobody tells you what the speed limit is so you do not know if you can be charged with speeding. You can put that too to high-conservation forests because they say that you are not allowed to log high conservation forests and yet nobody knows, it would seem, what a high conservation forest is. Have you heard of a definition and if you have can you share it with us or alternatively what do you believe the definition is?

Mr L'ESTRANGE - Again, there has been a body of work done by some people which remains unresolved about a definition for high-conservation forest areas. I think it will be somewhat difficult to get a defined outcome because all forests are somewhat subjective but that is going to be the task for the industry going forward to try to get clarity. I think that unfortunately there are two forefronts of this debate, one is a scientific approach and the other is an emotive approach, and unfortunately the emotions have won out against science so that is a fact of where it is. The impact on customers and financiers, if you go back the full circle, becomes one that is almost self fulfilling anyway.

Mr WILKINSON - The whole debate cannot really start until there is a definition of what a high-conservation forest is, because how do you know what you have to get out of or what you should get out of if it is not defined?

Mr L'ESTRANGE - I think the only way that can actually be delivered is a long and difficult body of work that looks at the areas in Tasmania and try to get resolution around all of the boundaries going forward so people know what are the areas and what will be available and whether that resolution can be achieved with the full support and signature of the environmental groups. It would be a very difficult outcome and there have been a number of attempts in the past but I do not think they have ever reached the stage of fully committing to the resolution, whatever it is.

Mr WILKINSON - It seems to me that the only way there may well be peace is if the agreement is you just are not allowed to cut down or log native forests completely. That seems to me to be the only way there will ever be an agreement between those who do not want to agree.

Mr L'ESTRANGE - There is probably a group of people with that view and there is probably a group of people on our share register and in our lending syndicate who would have a similar view. We are not pushing our views on anyone.

Mr WILKINSON - I understand what you are saying. So if there was to be a situation where you were not allowed to log native forests at all, what would be the scenario, not in relation to Gunns but in relation to the other players, taking into account the history that you have had in the years gone by?

Mr L'ESTRANGE - It would be an extremely difficult outcome because, whether it is customers who get lobbied in Japan or whether the end paper users like Xerox get lobbied, they just want it to go away and the easiest thing to make it go away is to tell them please do not send any products from Tasmania. Then it goes away for them. Unfortunately that is the level of activity that we have had against this.

Mr WILKINSON - The effect would be catastrophic to the forest industry as we know it and the communities that are the foundation of it.

Mr L'ESTRANGE - If there is a requirement to get a longer term industry outcome in a transition then it requires the development of appropriately structured plantations, which take a long period of time and there must be a realistic transition at that time. That requirement has to be properly thought out and agreed to and the consequence of how long you are in the current environment has to be well documented and agreed between the parties. It is a 30- or 40-year transition period. That is if the current plantation estate is seen to be adequate to deliver the requirements of the industry.

Ms RATTRAY - It has been suggested that a 20-year transition period might be enough to keep people in the industry. You do not agree with that? You are saying 30 to 40 years.

Mr L'ESTRANGE - I neither agree or disagree without the data. The data is required to see the scale and scope of the industry that is trying to be developed around the plantation base. What resources has it currently, what state is its development and how appropriate is it? So that detail is required to be gone through with enough clarity to agree on the proposal and then the investment case put forward to re-tool and re-shape the industry.

Mr HARRISS - You were talking about the market and, in my words, the market having be sabotaged elsewhere in terms of native forest product, yet around the world there is still product being sourced by many downstream processors from native forests in other jurisdictions, are there not?

Mr L'ESTRANGE - There are, yes.

Mr HARRISS - How does that then reconcile with this continuing confrontation which we find in Tasmania?

Mr L'ESTRANGE - Tasmania is a special place. We went through the process of our FSC certification for plantation. Our auditors, the Rainforest Alliance, have never encountered a public inquiry about the activities here, so there is a large degree of interest. There is a large division within the community on what is appropriate and what is happening. If you look at the certification bodies, that is not the only part about marketing. There are three chapters that you have to satisfy - the economic, the social and the environmental outcomes - and you need three ticks in real terms across all of the categories, predominantly all chapters, to agree. That is a place that we have not been able achieve in Tasmania at this point.

Mr HARRISS - On that then, my understanding is that there would still be forest product suppliers across Australia, and certainly within Tasmania as well, who are able to sell their product overseas under an Australian Forestry Standards certification and not FSC. You have chosen to pursue the FSC certification. Does that suggest that AFS is not suitable by your judgment for your purposes?

Mr L'ESTRANGE - We have AFS - PEFC - certification. We are already certified to that level. It does not appear to have the market traction on a global basis that the FSC certification has. They have certainly been very focused on their downstream activities to ensure that the message of FSC has been quite successfully linked to their grassroots activism. So they have been much more successful that PEFC - AFS - in getting the support of their brand.

Mr FRAME - I think it comes down to horses for courses. In our particular situation, we have no doubt that means we do not have a future in natural forests, but for others in that marketplace that may be different. For selling into different markets, and selling at a different scale to Gunns, AFS certification, PEFC or no certification may be suitable for other players. But in our situation we think dual certification is a necessity to sell across all marketplaces in a global business, which ultimately is the position where we want to be.

Mr HARRISS - About your choice of certification, FSC certification means different things in different countries, particularly in terms of the social licence, if I can put it that way, because a social licence in a developing country is much different than a social licence in an advanced country like Australia. Doesn't that lead to some level of inconsistency in terms of the buyers of the product, whether they are buying from a FSC-certified developing country as opposed to a FSC-certified developed country like Australia?

Mr L'ESTRANGE - The FSC process is within a global framework, so it is not as if it is set up for a different outcome in every country or local area. It is within a global framework but it very much operates and requires the local support of all of those chapters and the framework they have to move it all the way through. So you may get a tick on two, a cross on one, and that may be for local content, but to date it has been unlikely that FSC Bonn will overrule the local or the Australian chapter in the process. That is where the interpretive outcome is deployed.

Mr FRAME - I think that you may well be right but at the end of the day what matters is perceptions of the market place. As a company we need to respond to that so we need to be alive to what the perceptions are of the various certification schemes and ensure that we have the right tools to sell our product into the market place.

Mr HARRISS - That suggests that a large slice of your markets overseas have been contaminated by the lobbying of others as to the use of acceptable forest practices in Tasmania, whereas the science would suggest that forest practices in Tasmania are highly sustainable and of a world standard.

Mr L'ESTRANGE - As I said earlier, it is not about the science, but to deliver in the marketplace, and the preferences, requires a certification tick and it is only where that conflict arises that we do not achieve it. Certainly the higher value market of Japan has been significantly impacted by that approach as has that market been affected by the development of the customers' own plantations in other parts of the world and in Australia.

CHAIR - Greg, aside form the commercial decision that you have made as a company, and everyone understands that you made it very publicly and very clear, if for whatever reason, I am talking hypothetically here, the statement of principles happened to fall over, and then for example native forest harvesting is allowed to continue in Tasmania at its existing levels, and there are quite a few players who have indicated to us that that is what they desire because of the markets that they have et cetera, what effect would that have on your company and perhaps the pulp mill proposal? Would that have any effect on that at all?

Mr L'ESTRANGE - Our path is defined. It is only the time frame that is of debate.

CHAIR - So what you are doing is defined and is in isolation to what may happen with the other components of the statement of principles?

Mr L'ESTRANGE - We have said for a long period of time that it is our belief that if a resolution can be achieved for the good of the whole industry then that would be a great outcome if everyone could agree what the future looks like and how we are going to get there and restructure accordingly, have an industry and get the investment case for what it will be. That is a significantly better place than a return to the conflict that has been somewhat less over the last 12 months. For whoever stays in, it will have impacts on their market, on their customers and on their financial institutions.

CHAIR - If the ENGOs got their wish with the transition out of native forest harvesting, do you think that they would still give support to a pulp mill in the Tamar Valley?

Mr L'ESTRANGE - There has been much comment around social licence issue. I think that some parties probably would never grant it regardless of what Gunns did and will never move to that stage of support or acknowledgement, so we are not seeking anything from them. We are seeking from the broader community an understanding that this will be a world-class facility and it will happen. It is an opportunity to develop a new and sustainable industry in Tasmania and it can sit alongside whatever the industry is that is restructured in the native forest industry.

Mr FRAME - Are you making an assumption that the forest agreement inevitably leads to the ceasing of native forest harvesting in Tasmania? Is that your reading of the forest agreement?

CHAIR - Yes; that was the assumption I was putting forward, or a great part of it. That is what this term of reference is.

Mr FRAME - It is providing less certainty to the RFA, which expires in 2017.

Mr HARRISS - Yes, if a decision is made pre-2017 along these lines.

Mr WILKINSON - Some might argue that the RFA was the agreement which was going to be the end to any of the anxieties or whatever it might be in relation to forest industries. That is not the case and one could argue whether this agreement is going to be the end of it. If you look at history, and it is not a bad way to start, it is not going to be the end of it. The real question therefore is: with this new agreement do you honestly believe that we are going to improve the lot that we have been in over recent years?

Mr L'ESTRANGE - The greatest chance was to actually have a more formal commitment to this agreement from the ENGOs. It has never been achieved in the past. They have always almost gone missing at the signatory stage.

Mr WILKINSON - Correct. With RFAs, that is what occurred, of course.

Mr L'ESTRANGE - Yes, so this was a commitment to getting a holistic and acknowledged agreement signed. I think you would have more chance of success but there is a large battle out there for the traditional sector and to be more than a cottage industry it has to be resolved. That is for the health of the community and the employees who work in it as well.

Mr WILKINSON - It must be frustrating to a lot involved in it, though, because when independent bodies have come down here from outside Australia to look at how we are dealing with our forest industry and our forest practices, they have concluded that we are doing it as good if not better than anywhere else in the world and yet you still have this antagonism.

Mr L'ESTRANGE - Correct, but if you want to develop more than a cottage industry and a large scale sustainable outcome beyond the local area then you have to be able to achieve that next level of acceptance.

Mr WILKINSON - In relation to your carbon credit argument, some may say, and we have received evidence already, that if you lock up all our native forests now you may not be able to recoup any monetary benefits that you would get in relation to trading off carbon credits, because it is already locked up and therefore you have nothing to trade with. What is your comment in relation to that?

Mr L'ESTRANGE - Like all proposed legislation, until you see the detail and go through the ramifications it is hypothetical.

Mr WILKINSON - Yes, and that is the issue, because if we do lock it up now and if we find that in years to come, however long that might be, we have forgone a significant amount of money because of what we have done, then that is something we should consider and consider strongly.

Mr L'ESTRANGE - There is no easy solution because, as I said, it is a hypothetical.

CHAIR - As I said before, I understand the commercial decision you have made and your wanting to build a world-class pulp mill, but as part of that statement of principles we are still talking about the transition out of native forest for harvesting. Do you think that you may have perhaps pre-empted a short-changing for many other players in the industry in Tasmania by doing that, in that they still want to continue to be able to operate in that native forest industry?

Mr L'ESTRANGE - I think if you look at the evidence and the discussion around what is the volume that is available, the withdrawal of Gunns' volume does not impact on those other people's businesses. If you look at the detail about what is proposed to achieve the 300 000 cubic metre cut in, I think it is 2022, it already requires the current industry to make a 50 per cent transition to plantation fibre. So, again, the graphs that are factored into the volume available, even with the current areas available, the industry had to make that step over the next decade, regardless of what happened in the forest principles, something that I think some of them have probably ignored. Regardless of what happens, the industry has to make a 50 per cent transition of plantation hardwoods. That is already in the delivery plan from Forestry Tasmania.

Mr WILKINSON - Can I touch on Triabunna, Greg, because, as we know, the history of it was that the Clements, the Chestermans, the Risbys, McKays et cetera started up Triabunna years ago. It is a Gunns' business now. To get rid of the residue from down south, not up north, one would argue that there needs to be a plant fairly close by. Triabunna seems to be the ideal plant for that because it is there already. Do you believe that there needs to be a chipmill in Triabunna for the players in the south of the State because it would cost too much to bring it up to the north?

Mr L'ESTRANGE - I think that if you look at the region, there is only one real spot for an exit point for native forest woodchips from the south and that is the Triabunna facility. There are a couple of reasons. I think a reasonable amount of study took place around developing a facility in the Huon some years ago. International woodchip facilities, boats, are not getting smaller so if there was a draught problem in the Huon then there is a bigger problem now because of the size of the boats transporting woodchips around the world. So I think it is a requirement for the industry, for the Triabunna facility. We have encouraged a number of parties to be realistic about what they see is both an economic and strategic value about that. We want to make the transition for that facility appropriate but it has to be a reasonable commercial outcome, and we have had the same conversation, we see the same issue around the Southwood sawmill area. That is an integral part to the south. Again, the industry needs to get investment to put into that facility if they do want it sustained because it will not be with Gunns.

Mr WILKINSON - But, as you say, the ideal area for the exit of the chips from the south of the State, in my belief, because it is already there, is Triabunna.

Mr L'ESTRANGE - Not only ideal but the only one.

Mr WILKINSON - That is right.

CHAIR - If we go back to our term of reference, Greg, the impact of getting out of native forest harvesting, obviously Gunns have had several sawmills, particularly here in the north and other parts of the State, relying on native forest timbers. Have you any plans to move on with those? We are talking about impacts here now. It is obvious if you close them, there are impacts to rural and regional communities. Will that be a consequence of going out of native forest harvesting and closing some of those existing sawmills?

Mr L'ESTRANGE - If there is no continuity, there will be consequence. We see that there are areas that will be sustained. We would also say that in modern sawmill activities, which ours are certainly not, there would be a significantly fewer number of people in those facilities today if they were operating and had to prior investment in them. But they will be impacted and unless there is a continuity of operation, they will close.

CHAIR - That is going to be your commercial decision down the track.

Mr L'ESTRANGE - Yes. For people in this area where we can positively transition them to, say, the Bell Bay pulp mill we will actively work on that transition to give continuity to our employees.

CHAIR - I am thinking that through. In terms of those existing mills working on existing native forest resource are there still not markets there? We have heard from other players that they cannot meet the demand for some of their native forests, their flooring products and other things, so there are people in niche markets and other larger sawmillers who are still going quite well and are quite bullish about the future.

Mr L'ESTRANGE - Yes, but let me touch on that for a moment. Currently, on an annualised cap basis, we market over 300 000 cubic metres of log input of what we call the white wood, which is more than the total cut in Tasmania at the moment. If you look at the overall market, we have continued to reduce our volume from Tasmania to allow those current operators to operate within the market. While ever that last 30-year trend of activity in sawmilling is on that gradual slope, it has gone from 3 million cubic metres to less than 1 million, and it will probably head towards 600 000 cubic metres and may stabilise there, if preferences change. That is a trend that is already happening and they will be impacted. So they have to look at that; it is an inevitable overall trend. Product from South-East Asia is coming into Australia competing with our wood. In fact bamboo substitutes that look like Tassie oak are becoming available as a flooring product. They are all part of a changing market position. So regardless of what happens, there will be a position where they must be more competitive but the winds of competition are heading their way.

CHAIR - As we know, things can be cyclical as well; exchange rates and demand for things can change.

Mr L'ESTRANGE - A 30-year consumption trend is a trend.

CHAIR - Okay.

Ms RATTRAY - Greg, in relation to the Triabunna facility and its closure at the moment, temporary closure, do you still see that as being a temporary closure at this point in time?

Mr L'ESTRANGE - We were actively exploring a whole range of markets for the product at the moment. At $1.07 to $1.10 it is an extremely difficult marketplace, so we certainly have not given up. I also think in the longer term there will be an improving position for woodchips on availability. But again, the market destination for these products is smaller than a broader market with the right certification and the Australian dollar and our distance from those markets is certainly not heading in our favour.

Mr FRAME - Just to ensure clarity in our communication today, is it possible for you to summarise your understanding of the discussions with the answers that we have provided today?

CHAIR - That is something that the committee could consider. I don't think we have gone down that track before.

Mr FRAME - Summarising what we have said here today to give us an understanding that we have communicated it effectively. Is that not something that you normally would do?

CHAIR - No, we don't. It is transcribed, it is on *Hansard;* it is there for everybody to see.

Mr WILKINSON - To give a fair summary really we would have to have a look at the transcript. My understanding would be - I can give you my personal one and I do not know if it is the committee's - that it is fairly clear what you have said.

Mr FRAME - Okay, if you think it is clear, that is fine.

CHAIR - Thank you very much for your time, gentlemen.

<u>THE WITNESSES WITHDREW</u>.