

THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE TASMANIAN FORESTS AGREEMENT BILL 2012 MET IN THE COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON THURSDAY 28 FEBRUARY 2013.

Dr BOB SMITH, AUTHOR, **Mr MARTIN FARLEY**, CO-AUTHOR, **Dr TONY O'HARA**, CO-AUTHOR, OF SOCIO-ECONOMIC STUDY, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Harriss) - Thanks very much, gentlemen. We received your analysis report two days ago or thereabouts. Bob, you would be aware - I don't know whether Martin or Tony have appeared before parliamentary committees in the past - that for the purposes of the record, you are protected by parliamentary privilege while in this committee. You don't get afforded that protection outside of the parliament. So if the media wish to speak with you or you to them, we would suggest caution in terms of you not being protected by parliamentary privilege. It is important we let people appearing before the committee know all that. Bob, Martin or Tony, is there any contribution you want to make in terms of an opening comment about the analysis?

Dr SMITH - Thanks Chair, yes. This study arose out of the Tasmanian Forests Agreement and it had very restricted terms of reference. The study is, because of the time constraints, basically a job study. The deeper socio-economic impacts and the individual communities could not be done; so I think it is important in that context.

The study was actually based around a baseline of what we considered the industry was operating at in October to December last year. The information on employment is actually a couple of years old, but what we used was the employment levels as of October-December. For Ta Ann, it was what the real operating was - about 91 employees. On anecdotal evidence, a number of sawmillers have actually kept additional people on, even though they are processing less volume. So it is important that the baseline volumes that are indicated in this report are based around employment. They are a nominal volume in that sense.

In terms of the scenarios that we used to judge the impacts against the baseline, scenario 1 is basically a proxy for the TFA. The TFA only specifies at least 137 000 cubic metres of high quality sawlogs. The other volumes aren't targeted; so we are using Forestry Tasmania information of what products would flow from supplying 137 000. That included Ta Ann, which was operating well below its current contracted volume of 265 000. Scenario 1 is basically the impact of moving from the current employment in the industry in native forests to the volumes that will potentially flow under the TFA.

Scenario 2 is a judgment based purely on the author's report of one potential outcome if there is no agreement. In our judgment, there will be market disruption and the supply will mainly come from areas outside the areas identified as part of the TFA. Also, access to residue markets will be highly restricted. There are other scenarios which can be run. For instance, you could say that peeler logs of Ta Ann players could be exported that would generate more employment; I think it is important to understand that. That is the basis of it. There is a lot of information on estimates of employment impacts which I will not go through as we can probably address that.

To introduce the people who did the work: Dr Tony O'Hara has actually developed the model which was part of the verification group's work last year and it is heavily based on Jackie Sherman's work for the CRC in employment. The employment information which was used of the coefficients for employment versus levels of production was based on Jackie Sherman's work. Tony can explain the model in more detail if people wish to hear it. Martin Farley ran the input-output side of the model which is the report of the financial flows to estimate the indirect and consumption impacts associated with the flow-on through changes to log supply.

In a nutshell, that is where we are and people might want to ask questions.

CHAIR - Thanks very much, Bob.

Ms FORREST - I would like to hear more about the model, how it was developed and how it was applied?

Dr O'HARA - As Bob mentioned, the model was based on the work that Jackie Sherman did to assess the current state of the industry as at 2011. It involved pretty much a comprehensive interview process, as far as she could do it, with every processor of native forest material in the state to assess what they had been harvesting, what employment was associated with that, where that employment was drawn from, where their expenditure was drawn from, how they processed the material into what kind of products, where that material was then sold and also, which is a key part of how the model works, an assessment of two critical issues - one, what was the minimum intake that they could sustain and keep operating? So, in other words, if the intake was less than that, they would definitely close, and how vulnerable they were to inputs of logs above that minimum level. If, for example, the volume was decreased by 25 per cent, how likely were they to close under that situation?

Ms FORREST - Because of overhead costs, basically - that sort of thing.

Dr O'HARA - The difficulty with asking that question to an individual miller is that most don't know; most of them will say that they will keep operating for as long as they can. It varies dramatically from one miller to the next as to how susceptible they are to reductions. It can be as simple as how they feel when they come to work that morning about whether they can put up with this anymore. For that reason, there is a probability assessment attached to closing; so the more volume is reduced, the more likely it is that a mill will close.

But aside from that minimum volume threshold, it is a probability; it is not an absolute. What that means in terms of how the model works is that the volume is reduced in line with a particular scenario. Once that volume is set, that available volume is then allocated toward the available sawmillers in that area in a two-stage process. The first stage is whether they have contracted volume - they get first priority. Once the contracted volume is met, any remaining volume is allocated amongst all the remaining sawmillers, so they then have a total input volume.

The model then assesses the likelihood that they will close under that scenario. If the minimum volume has not been supplied, they will close. If something above the

minimum volume is supplied, there is a probability that they will close. The model is run multiple times to reflect that probability. That is why the report talks about a range of outcomes because each time the model runs, you get a different number of employees. This reflects the fact, as I mentioned before, that you cannot actually say with any confidence for an individual mill, and given that this is run on an individual mill basis accumulated up to the total, when an individual mill will close under a given set of circumstances.

Ms FORREST - But you are saying - and correct me if I'm wrong here - that individual mills where their individual circumstances and what they thought or what may be the case, the probability of them closing was considered. It wasn't just a case of, 'Let's have a look at the whole sawmill industry'.

Dr O'HARA - The whole model is built up from individual mills.

Ms FORREST - Thank you.

Dr SMITH - And by local government area. To expand on Tony's response, the allocation in the model initially gives preference to long-term contracts with FT, so their high-quality sawlog contracts are satisfied first in the model.

Ms FORREST - As far as some of the other contracts go, was that considered? Other shorter-term contracts?

Dr O'HARA - If they have a contracted volume of any kind that's the first priority in allocation. Once that allocation is met, if there is any volume remaining after that it is allocated pro rata to all sawmillers on the basis of their historical input proportionally.

Ms FORREST - Not under contract, though? That's just an allocation beyond the contractual arrangements?

Dr O'HARA - If they had just had an allocation as opposed to a contract then they were second priority in terms of allocation under the model. There is a volume available after the contract. Volume allocation is pro rata to anybody who has an allocation.

CHAIR - Bob, you mentioned at the outset that you were constrained by the terms of reference - my words, not yours. Can you provide for the committee what the terms of reference were?

Dr SMITH - They were basically the wording that is in the TFA that a socioeconomic study be undertaken and the results published and reported but actually consistent with volumes which are in the TFA. There is a clause in the TFA, I can't remember the number.

CHAIR - It doesn't matter, we know it's there. In addition to that, were you required to submit various iterations of the document or your analysis to the federal minister prior to the final one?

Dr SMITH - No, we didn't deal with the minister, we dealt with the department and as normal in these processes, we submitted a draft which they commented on, we assessed

those comments and then submitted a final report which you have, but there was very little change from the initial draft to the final report.

CHAIR - If you were to snapshot the nature of the comments, how would you characterise them?

Dr SMITH - A lot of them were explaining better how the baseline was constructed and that was relevant, also explaining where we got the volumes for scenarios 1 and 2 because, as I said, in scenario 1, which is basically the proxy for the TFA, the only fixed volume is the high-quality sawlog. The rest are levels which are qualitative and we explained in much more detail where those figures come from and also explained Ta Ann a bit better than we had in the initial one.

CHAIR - In terms of the data you used, I think I heard you say that it was the 2012 jobs numbers which you were aware of, particularly with respect to Ta Ann, but also in the Jacki Schirmer information.

Dr SMITH - I should have explained that better. What we used was Jacki's work and Tony's model which developed employment levels and certain coefficients for the amount of timber which was processed by employees and also the volumes carted by contractors. Those coefficients were used to generate the volumes in the baseline. The current intake of sawlog we know is less than 163 000 but the number of people employed in the industry using the current coefficients giving you a nominal volume of sawlogs is about 163, and as you are probably aware Forestry Tasmania is currently subsidising contractors for cartage, and even though they're carting less volume what is in there is the nominal volume which traditionally would reflect the productivity levels of the contractors - if that makes sense.

CHAIR - Yes. Given that the industry has been experiencing some difficulty since 2006 but probably heightened in the last three years, is it a reasonable observation that to use the most recent figures may be a bit of a distortion from the point of view that it has probably been the worst year?

Dr SMITH - We debated this internally a lot, Chair. You can put whatever baseline you like. We could have picked 2006 but we tried to reflect what the industry was operating under as of last year and, as I said, it picked up transport subsidies for contractors, it picked up Bella Vista and down south, so we tried to make it as real as possible at the current level. We would be open to criticism if we used the 2006 or the 2008 figures but you can surmise that from the data anyhow, in my view, and that was the rationale we used.

CHAIR - If I can focus for a moment on scenario 2 - and if I'm reading this correctly, I'd be surprised, so we'll see how we go -

Dr SMITH - Is that a comment on you or me?

CHAIR - That's a comment on me.

Laughter.

CHAIR - On page 5 of the document where we come to pulp logs and cat 8, scenario 2 suggests no pulp log, if I am reading that correctly, and only cat 8 of 10 000 cubic metres or tonnes per year. Is that a realistic proposition when we consider that Tasmania is currently, and is likely in the future, to be exporting woodchips, whether that be a productive market in terms of economics or not? When I looked at that I thought a zero chip scenario seems totally unrealistic given that there will be a temporary industry of sorts, whatever it might be, and there will be some horizons. Given the fact that we are currently exporting I needed to challenge that.

Dr SMITH - That is fair enough. As I said, it was the author's view of a potential outcome and taking into account some of the history that has gone in Tasmania, particularly with market disruption and the current preferences for woodchips in the main markets which are more and more swinging to non-controversial sources. Again, as I said earlier, we can run other scenarios that have additional markets in them but this was just for illustration purposes. People's views are as relevant as anyone else in this because it is the future and who knows how this is going to go. That is the whole basis of it. One of the concerns of other people who have read the report was exactly that, that this is a doom-and-gloom scenario, but we can run other models. But it is people's judgment of where the markets will be. You're dead right, there will be exported woodchips but it will be plantation-based. That will have market acceptance, whether or not you can get your reputation back for native forest.

I also should state that scenario 2 is done on a supply level. It doesn't take into account the issues associated with developing a commercial supply chain and, from that point of view, it would be a big challenge to make it work.

CHAIR - I want to focus on the last couple of comments you made with regard to chips where you indicated that it will be, in your judgment, from plantations. Did you address your mind to the arisings from a continuing high-quality sawlog product from native forest and what we then do with the residues from such a process?

Dr SMITH - We assume they basically stay in the forest, as they are now. Whether or not that is right, I don't know, but our judgment was it would be difficult to develop a commercial market based on export.

CHAIR - In that respect, was there any consideration to emerging opportunities such as biomass power generation in the event of a change of policy at the federal government level such that there would be a market for those residues onshore - not needing export?

Dr SMITH - We didn't run a specific scenario, but we can; it is quite simply done. I think there is a flavour in the report that the future of the Tasmanian industry to some extent is being able to develop probably onshore commercial markets for the total wood basket that comes out. That is part of the arisings. People cherry-pick their way through particular products and don't integrate them into the total supply chain.

Martin has done some work on looking at future use of the lower grade fibre for other products, whether it be laminated veneer, lumber, bioenergy, et cetera. There needs to be a whole body of work done that gets that market ready and it hasn't been done.

CHAIR - Staying with that theme and comparisons with scenario 1, were you limited by any instructions from your client to only model two scenarios?

Dr SMITH - No. We ran a lot of scenarios internally that weren't developed to the extent these were. The whole focus of the report was the difference between the baseline and scenario 1. Scenario 2 was put in purely to demonstrate some of the potential impacts if TFA wasn't done. As I said, you can run other scenarios for that but it is just our judgment for illustrative purposes, basically as an informative body of work.

CHAIR - So if I link those two scenarios to commentary yesterday by four ministers - two federal and two state - to the effect that if the Legislative Council does not pass this bill then we have Armageddon - my words, not the ministers'. If I look at the scenarios with regard the economic contribution to Tasmania with those two scenarios, the job losses and so on, is it reasonable that any commentator should observe that if the bill is not passed then scenario 1 kicks in and we have Armageddon?

Dr SMITH - It's not my area to comment on, but one of the issues would be that unless the industry can be stabilised - and by that I mean much more certainty - and full use of the products that come out of it, then the industry faces challenging times, even the sawmilling industry. There will probably be a small legacy sawmilling industry, as there are in some other countries I am aware of, but where it leads I don't know.

CHAIR - Can I then go to the question in a neutral way? If you were providing commentary on this document, would you characterise the outcome, in the event the Legislative Council does not pass the bill, as to immediately assume scenario 2 will be the effect?

Dr SMITH - No, I don't think you can assume that. That has a particular set of assumptions and you can do other actions to mitigate those impacts. It may be a particular resource - you could assume it is export and not processed onshore - such as peeler logs et cetera. I think the impact of no agreement by the Legislative Council would depend on what the policy response was. That is where the challenge is.

CHAIR - If I look at the analysis on page 6 of the document, which suggests on the output line, direct and indirect, that the effect of scenario 1 with the legislation in place would be \$119 million negative, and scenario 2, \$570 million negative. I am perplexed to understand how \$570 million could be factored in there given, on reference to Forestry Tasmania's annual report from last year, the contribution to the economy of Tasmania in a bad year was \$314 million. If we only made a \$314 million contribution to the Tasmanian economy last year from the total forestry operations in this state, isn't scenario 2 going to deliver a \$314 million negative rather than a \$570 million negative?

Dr SMITH - We do not know. I tend to suspect Forestry Tasmania's reporting is on the value of the products at the mill door. What you have here is the direct, indirect and the consumption effects in total that go through the whole production line - the whole supply chain. Forestry Tasmania, in my understanding, reports on a product level and the figures we used are roughly comparable with what Forestry Tasmania work from, whereas these are much more inclusive impacts of the whole industry on the whole of Tasmania. That includes impact on the local mechanics, petrol purchases, reduced consumption effects, et cetera.

Mrs TAYLOR - Sorry, I thought your report had not taken those into account. You just said job losses.

Mr FARLEY - No. The direct effects, going back to what could impact, if you talk about comparison with FT and talking about the products that Bob was talking about, is the \$263 million. Then there are industrial flow-on effects. As a consequence of the forest industry producing those things, there is a flow-on effect that Bob talked about into the supplies of trucks, plant equipment, fuel et cetera. But also, as a result of that activity going on within the economy, that induces other consumption. In scenario 2, that is identified as a \$117 million loss from that other consumption. What we are saying is that the total state output declined by that \$500 million because that is what the multiplier effect does. It looks at the range of direct and indirect transactions and then the flow-on effect.

CHAIR - You believe the Forestry Tasmania annual report may have just been the combined direct, that \$263 million that Martin has just mentioned, not their report, but can you be certain that FT's annual report does not factor in - because I understand that it does - industrial flow-ons and reduced consumption?

Dr SMITH - They use multipliers. I cannot remember what is in their report but with the material I am familiar with it is the value of what is produced and then they use some multipliers to ramp up the indirect. I do not think they do consumption impacts. I would have to take that on notice and go back and have a look at the report.

CHAIR - Were Forestry Tasmania consulted in terms of what their numbers are?

Mr FARLEY - No, not by me.

Dr SMITH - I should point out that Tony's model gives you the value of production from the sector we were interested in. It is important to also realise with Forestry Tasmania - their value is not only native forests, they also have plantations included. We can go back and check, but it is important that we are comparing apples with apples here.

Martin's statistics, that give you the financial flows, are mainly based on ABS data.

Mr FARLEY - Pretty much totally.

CHAIR - Thank you.

Dr GOODWIN - When you have a report like this, which models two scenarios, the temptation is to compare the two and say, 'Well, if this happens this is going to be the result, but if scenario 2 happens this is going to be the result, so we are better off going with scenario 1', but you have a caveat against directly comparing the two on page 15 of your report. I just wondered if you could explain the caveat you have on doing that, and why you cannot directly compare the two? You say it is not valid to imply measurable correlations between these two, modelled outcomes, so I am wondering if you can elaborate on that please?

Dr O'HARA - Scenario 1 is the change from the baseline to a given supply level - it is a modelled output from a specified starting point. Scenario 2 is the change from the

baseline to a different supply level, and is also a modelled output. You cannot imply a measurable relationship between scenario 1 and scenario 2. In other words you can't say that if you go from scenario 1 supply level to scenario 2 supply level, you can just subtract off or add the number of job losses and add the number of outputs. What you cannot say is that the consequence of going from scenario 1 to scenario 2, for example, is the loss of about 1 500 jobs in total.

Scenario 1 and scenario 2 are modelled results, and you can't directly correlate two modelled outcomes. You can't measure the difference between them. They indicate the change from a baseline to an outcome. That is what that caveat talks about.

Dr GOODWIN - I also wanted to ask about the fact that the estimated impacts don't incorporate any mitigation actions, which is stated on page 6. Does that apply to both scenarios?

Dr O'HARA - Correct.

Dr GOODWIN - You say it is beyond the scope of the report to quantify the impact of potential mitigation actions. It is somewhat of a surprise to me that they weren't incorporated in the modelling, and I am just wondering why that is the case. Is that because of the restrictions you had on your terms of reference, and your time lines? I just thought that would be something that would be included.

Dr SMITH - That body of work needs to be done, because the economics of the industry will be dependent upon the ability to commercially use the total fibre flow - that is the big gap in this report. This report is simply, as I said earlier, basically a jobs' impact report - an assessment of changes to current employment levels in the industry if you move to scenario 1. That is the main body of the work.

Dr GOODWIN - The reason for the big gap is what? Why couldn't you -

Dr SMITH - It would require a consideration of what is a commercially viable industry - considering things like laminated veneer lumber, or bioenergy, and modelling the impacts onto that. That is a required body of work, I am not arguing about that. I am supporting it, but we weren't charged with doing that work.

Dr GOODWIN - That wasn't part of your terms of reference?

Dr SMITH - No.

Dr GOODWIN - If I could just ask a question about the special species timber sector, because you have dedicated an appendix to that, and you have suggested the impact - I will just read from the appendix: 'The consequences of reduction in log supply on utilisation of timber products within the Tasmanian community are significantly more dramatic for special species timber than for structural eucalypt products'. You are flagging the impact is going to be much greater for that sector. Can you perhaps elaborate on what you think the impact is going to be there, or could be there?

Dr SMITH - That body of work is out of the previous report by Martin. The direct processing of speciality timbers - because they are mainly done in conjunction with other

saw milling - is included in the direct impacts. What is not included is the downstream processing of speciality timbers, and it is a very complex area.

Mr FARLEY - It is really from two perspectives. We are talking about employment impacts - socio-economic impacts - in this particular report, and one of the things we are aware of is that speciality timbers tend to be craft-based rather than production-based, so given the volume of timber there is a greater proportion of employment loss because of that nature. The other issue is that specialty timbers play, as most around the table know, a really special place in terms of the positioning and marketing of Tasmania. There is the normal traditional economic flow on type impact, but it also has a special place in the positioning of a whole lot of different industry sectors. It has, as Bob says, a 'long tail'. It has quite different place than does the normal square timber sectors.

Dr GOODWIN - It has been described as a flagship industry for Tasmania. The wooden boat building and products sold at Salamanca Market - for our tourism brand, it is very important.

Mr FARLEY - That is right. It is actually a positioning product.

Mr HALL - Bob, it was brought to my attention this morning that your analysis does not show any opportunity cost. Are you assuming that demand for Tasmanian timber products will remain at these very low historic levels, and will never recover?

Dr SMITH - No, but the volumes have been restricted to the potential in the legal agreement. That is the volumes we used. If the volumes go down to these levels there will probably be a change in the price structure, because the demand and supply relationship will come into play. We have taken none of that into account.

Mr HALL - Being devil's advocate for a moment, scenario 2 assumes there is no agreement - that there will be no market for residues or peelers, that Ta Ann might close both their mills, there will be a reduced supply of saw logs, special species supply will be reduced by two thirds, we might not sell any pulp wood - there won't be pulp wood demand from China at all - and that saw millers who currently cannot meet demand will reduce output by two thirds et cetera, et cetera, and it goes on. I suppose it is really a worse case scenario. I think the Chair called it an Armageddon one, but is it one that really tends to suit the government's arguments rather than reality?

Dr SMITH - That is a fair criticism. As I said, we can run other scenarios but it is what people consider is a probable outcome. We are more than happy to run the other scenarios and it is quite simple to do, but they are all judgment calls and the history indicates it comes down on the side that we have put in. That scenario is not driven by a political objective of showing up the potential outcome at all. It is purely our assessment of a potential outcome and you should not read any more into that; it is there purely for illustration.

Mr HALL - Without litigation measures you estimate 400 job losses, I think, under scenario one and 1 900 under scenario two. So you are saying we are 1 500 jobs worse off under scenario two. How many jobs do you estimate are in the timber industry at the moment? Have you any idea?

Dr SMITH - No, I don't. It is important to remember that our work is on the native forest processing side. It does not pick up plantations. It does not pick up softwoods and it doesn't pick up a lot of the really downstream processing, except for the native forest side. If we estimate, the number of contractors and the direct employment in sawmilling from native forests is currently about 900 in Tasmania.

Mr WILKINSON - Bob, I was listening to you answering questions from Paul and a couple were answered. Are you saying to us that no verbal instructions were given to you from your client about the modelling?

Dr SMITH - No.

Mr WILKINSON - None whatsoever?

Dr SMITH - No. The initial modelling was framed up under the verification process that Jonathan West led. We were completely independent but we had our model checked for credibility. Jacki Schirmer did that in association with Tony. There has been no pressure at all.

Mr WILKINSON - I am not saying that there was any pressure applied, but I was trying to understand if there was any instruction from the client in relation to modelling.

Dr SMITH - No.

Mr WILKINSON - None whatsoever?

Dr SMITH - No. We were handed over the clauses in the contract I have. It is all under me, and it just quotes the clause in the TFA.

Mr WILKINSON - Was that was a written instruction?

Dr SMITH - Yes, I suppose it was because there was some argy-bargy with it as you are going through. Commonwealth contracts are complicated documents, that's all. No, it was very succinctly captured in the wording of the TFA.

Mr WILKINSON - That was a very broad wording, was it not? I have it here: the IGA socioeconomic modelling will be run and publicly released to assess a report on the regional and statewide impact of the agreement.

Dr SMITH - Yes, and that is what we did. To do that work we put the base line down and then we decided if we used scenario one as a proxy for implementing the TFA and then we added another scenario for illustrative purposes, then we could run scenario two and we could have scenario 2A, 2B, 2C. It is what people's judgments are. We interpreted our main responsibility as the difference between the industry now, which is the base line, and scenario one, which is the TFA. That is what is in the contract.

Mr WILKINSON - When Jacki Schirmer came up before us on the telephone a couple of weeks ago she implied that she withdrew because of the restrictions that were imposed upon her. I note also with your opening comment you say the study arose out of TFA-restricted terms of reference and then deeper socioeconomic impacts could not be done.

Are you saying that you believed you were restricted?

Dr SMITH - No, not at all. When I say restricted, I implied if we were restricted by the terms of reference which are in the TFA. I think what Jacki was talking about, and I was involved in that work with the verification group, that in her professional sense she wanted to do a much more detailed study of the community impacts, which is a full-blown socioeconomic study. Because of time constraints this has been restricted mainly to what I would call an 'economic' model, which is jobs. That's my understanding of where Jacki was coming from.

Mr WILKINSON - You said the deeper socioeconomic impacts couldn't be done. Are they being done?

Dr SMITH - I don't know. As far as I understand it, this work we've done will be the finalisation that is satisfactory to the signatories, who we briefed the other day. We have had no comments from them. They questioned certain issues in the report and scenario 2, for instance. There was commentary that other scenarios should be run if there is no TFA. We are undertaking this work under the auspices of the Commonwealth Department of Environment. We have a liaison officer there and she is the only one we talk to about the internal contractual processes.

Mr WILKINSON - There was some comment made, I think, by the specialty timber people. They are saying it is going to decimate their industry and they won't be able to work and jobs will be lost. We were told there were 2 000 jobs in the boatbuilding business and around 8 000 hobby specialty timber people. Was that looked into?

Dr SMITH - I will let Martin comment on that. We did not delve into the long production use tail of specialty timbers.

Mr FARLEY - For the purposes of this particular study we pulled out of the previous work we did - those sectors that are highly dependent upon special species: furniture makers, boatbuilders, instrument product makers, and those people who are doing boxes and those sorts of things. We applied the information we collected in the previous work to this to provide an indication.

Mr WILKINSON - I don't quite understand that, Martin. How does that relate to their concern that if this goes ahead they're going to be decimated? If you read it at its base level, approximately 10 000 jobs are going out the window.

Mr FARLEY - I haven't seen the evidence for the 10 000 jobs. When we did the previous body of work we went through and identified as many boatbuilders as we could. I've had lots of discussions with Andrew Denman who believes we underestimated it. There are other people who think we overestimated. One of the hobbyist pieces of information came out of a study by the ABS probably around 2006 or 2008 that looked at a number of woodcraft - it was an arts recreation type study. That was the only source of information around that that I am aware of. As Bob said, what we have done here is use the best data we've had available to try to model. The way we've done it is to not talk about a percentage reduction in the amount of special species timber to those particular

sectors but really identify that they are there and, if they had no timber and no longer existed, these would be the consequences.

Mr WILKINSON - Time seems to have been of the essence in a lot of things and the time extends and extends. Given an ideal world, are you happy the work you have done has been the best type of socioeconomic impact you could do in accordance with the agreement or would you rather look into other areas if you had the time available? If you were able to look into those other areas, what would you look into?

Dr SMITH - When you strip all this back it's basically a job impact study. It's not a full-blown socioeconomic study, which would require much more work at a community level. The assessment of what's a viable community becomes very complex and time-consuming, but that should be done. As part of that, there are mitigation activities that need to be built in to potentially new industries.

As I said earlier, how you would use the total output of the fibre to support profitable jobs, that body of work actually needs to be done independent, in my view, of whether or not there is a TFA, in the sense that a lot of the markets for the arisings in Tasmania, as in the rest of Australia, have collapsed. The market is not there and what markets are there are very price-sensitive. They are vulture markets and somehow you have to get out because there's no stability in employment when you're in those markets.

Mr WILKINSON - Was the impact upon rural and outlying communities assessed at all?

Dr SMITH - No. The model can produce at a local government area level for Tasmania what the job impacts are. The model discriminates where people are employed and where they work and from that you can start to build a picture up of potential impacts on the number of people in a community, what is a viable community - it becomes quite complex - and it is a probability model that Tony has used for the individual sawmillers, but that work has not been done. There's a hint of it in Jacki Schirmer's initial work for the CRC but some of that work now is quite dated and was done at a time when the industry was much more vibrant and much bigger than it is now.

Mrs TAYLOR - I wanted to follow up exactly from that point, Bob, because if I'm reading this right then what you call effective mitigation action in your report is not taken into account. It is not taken into account in scenario 1 or scenario 2 and that is certainly related to this TFA with the funding schedule that we have, for instance, that says if the TFA goes ahead there is this funding schedule which not only does compensation and exit packages and stuff but is also for R&D for other uses for residues and other industries to be built in those communities affected.

None of that is taken into account in either scenario 1 or 2 and clause 19 of the TFA says that informed by the outcomes of this modelling, support for communities affected by this agreement should be provided through the economic diversification fund. It is a given, I suppose, there will be some, as you call them, effective mitigation actions, but we don't know what any of those are and therefore you haven't been able to take them into account.

Dr SMITH - We don't. There are a lot of ideas out there but none of them have actually been solidified into something that is meaningful at the moment.

Mrs TAYLOR - No, but there is actually with at least scenario 1 a given funding schedule for mitigation -

Dr SMITH - I understand so.

Mrs TAYLOR - that both the state and federal governments have agreed to but I just wanted to make sure that that is not taken into account.

You also made a comment a little while ago about residue and you said something like, 'I think the residue will just stay on the forest floor'. We have been told a number of times that the sawlog industry is not viable on its own unless all the products from the log are used and I presume that means all the arisings, so if stuff is left on the forest floor because we can't do anything else with it, doesn't that make the sawlog industry not viable as well?

Dr SMITH - Yes.

Mrs TAYLOR - Thank you; I like short answers.

Dr SMITH - No, it's correct. The point I was making earlier is that the economics of the forestry industry on the harvesting side is directly related to an ability to be able to profitably market all the wood; you cannot cherry-pick your way through it because if the sawlog industry cannot support itself the harvesting costs just blow right out the door.

Mrs TAYLOR - Yes, and that is why I am concerned about even scenario 1 that we're not making provision for use of the total product and therefore, regardless of whether the TFA goes ahead or not, are we not looking at a sawlog industry that is unviable in the long run.

Please don't regard this as provocative because it's not; I would like a genuine answer from you. What do you see then as the value of this report?

Dr SMITH - Basically, it just gives you an assessment of the probably loss in employment where you are moving from the current levels of employment in the industry to levels which are specified in the TFA, that is scenario 1, and with withdrawal of the subsidy for transport, Ta Ann continuing to operate at their current levels. That is all it does. It gives you an indication of the financial flows through the broader Tasmanian economy at a regional level. I should have stressed that there are regional tables in the back of the report.

Mrs TAYLOR - Thank you, I'm glad to have that answered because I don't have an argument with your modelling, it is just that it appears to me that sometimes people are expecting or wanting it to be more than it is. If it isn't it is really important that we know what its limitations are.

Mr VALENTINE - With regard to specialty timbers, can you tell us how you arrived at 9 000 cubic metres for scenario 1? We know that the signatories realised there had to be more work done to get the figure they really need, and some say 12 500. How did you arrive at that figure?

Dr SMITH - They are actually the figures from Forestry Tasmania. We are operating on the area which I understand is production forest out of the TFA and what their assessment is of the specialty timbers which will flow. Don't forget that the majority of specialty timber is blackwood and that is their estimate of what is a reasonable continual supply when they supply 137 000 cubic metres. It is not related to contractual commitments from FT or anything like that.

Mr VALENTINE - Fair enough. The idea of it dropping by two-thirds you've covered off to a degree in previous answers, but I just want to know whether you've factored in the aspect that that particular component of the industry is driven more by passion than by competence with dollars. Do you have a comment on that?

Dr SMITH - I think, as Martin says, it is a big branding and cultural issue for Tasmania. Our work is based on what is available in the locker that can be supplied and that is where we have driven it and, as I said, it is an estimate from Forestry Tasmania.

Mr VALENTINE - They reckon 3 000 is a likely result if -

Dr SMITH - No, scenario 2 is our estimate of what can be supplied, and scenario 1 is Forestry Tasmania. Forestry Tasmania did not comment on scenario 2 in terms of specialty timbers.

Mr VALENTINE - That assumes, under scenario 2, that the 504 000 hectares is not available for extracting specialty timbers from?

Dr SMITH - That's not their assumption, it's ours.

Mr VALENTINE - That's what I'm saying. Thank you.

Mr GAFFNEY - My question follows on from Greg's and Jim's where they touched on the results of this study. Peter Gutwein, and I appreciate his political role as the opposition forestry spokesman, said:

This is a report that was commissioned by the government for the government and provides the result that the government wanted.

Bob, you have clearly articulated that it is not a full-blown socioeconomic study. There were some time limitations and restrictions. You are clearly saying there was no direction from the federal government for any result other than you commissioned the study?

Dr SMITH - Yes, very much so. It is our body of work and our professional expertise.

Mr GAFFNEY - Thank you. I wanted that for the record because if you are an author of a report there is some integrity there and it was mentioned by the opposition member that you were directed to come up with the result.

Dr SMITH - No. I haven't seen that, sorry.

Mr GAFFNEY - When was it signed off for you to do this report?

Dr SMITH - The contract was signed at the end of last December but I was away travelling. I had the contract for two or three weeks beforehand. The contract was drawn up some time in early December.

Mr GAFFNEY - Was there a required time then for you to produce a report and have it back in?

Dr SMITH - Oh, yes.

Mr GAFFNEY - What was the date?

Dr SMITH - Something like 15 December. The original timeline in report could never be met. That was always accepted and it was adjusted outwards as it was signed.

CHAIR - We gave you more time.

Dr SMITH - I didn't know what you lot were going to do.

Laughter.

CHAIR - Neither did we.

Mr DEAN - I also notice that the report was dated 11 February. What time was this - the final report? Was it after you had sent the draft in and received it back?

Dr SMITH - No. Our final report went to the commonwealth on 11 February. It is their report after that and they have decided, by whatever processes they have got, to release it. From what I understand, it was released yesterday to you or the day before.

Mr DEAN - When you looked at scenario 1, that is, that the TFA have signed off and you make your prognosis in relation to all of that and what it will mean, did you take into account the evidence that we have been given and that we know is happening of the loss of all of the other employees that will occur as a result of that position? That is, the corner store downsizing, the garage downsizing, just about every other business in this state downsizing and/or closing or moving on?

Dr SMITH - Yes, that is all included. At the back of the report - this is Martin's work - it has the sectors which are impacted and that is also documented at a regional level.

Mr DEAN - Where did that all that evidence come from?

Mr FARLEY - That comes out of the Australian Bureau of Statistics using input-output tables and input-output modelling.

Mr DEAN - Straight from what the ABS -

Mr FARLEY - ABS does not report that. They provide input-output tables which are then used to run an input-output model. We have taken, for the state as a whole and for each

region, the mid-point of Tony's estimate of contractor and forest jobs and we have applied that to an input-output model. Based on the transactions that occur across the economy, as a result of these direct jobs changes, these are their indirect jobs which we talked about through the garage supplies, et cetera. These are also the jobs which occur from the consumption effect. The consumption effect is, to a large degree, those that are affected by people not having salaries to spend on TVs or restaurants or whatever.

That is all quantified in the report but based on that. It is a modelling technique, so it is not designed to reflect the actual reality because people keep people on for longer than they should as has been evidenced and people get income support. It is really a way of visualising the effect. Given the fact that we only had a short timeframe, we utilised this model to show how it flows through other industry sectors such as retail and hospitality because we were not able to do it by, say, these three LGAs or whatever else. It gives us an idea, unless the mitigation occurs, that this is what the flow-on effect could be.

Mr DEAN - As I understand it, putting this report together has been done from existing data over the years - ABS and all of these other things - but with no inquiry or no discussion into local government areas or anywhere else in the state at all. It is done virtually from your office.

Dr SMITH - Yes, it was built up from previous survey data where that was undertaken. We did not do any re-surveys.

CHAIR - Adriana on a supplementary because we have a couple of others.

Mrs TAYLOR - It is very short really. I wanted to ask, in accordance with Ivan's line of questioning, if we were to lose as many jobs either on scenario 1 or scenario 2, and those people did not get other jobs because we know what our work situation is like, did you take into account how much income the state would get or people in the state would get from unemployment benefits?

Mr FARLEY - No. This is really just saying, 'Okay, if this shock was to occur, this is what would happen'.

Mrs TAYLOR - Yes, and we are presuming that those people who would lose jobs have no income after that.

Mr FARLEY - Yes, and that is why the input-output model, when you are reducing from a negative shock, tends to over estimate slightly because it does not pick up that stuff, whereas when you are doing it the other way - when you are adding more on - it is actually more accurate because you are not worrying about mitigation.

Mrs TAYLOR - Okay, thank you.

Dr SMITH - In reading the report, in terms of the probability of impact, the direct impacts are probably fairly strongly represented. The indirect impacts such as petrol purchase, mechanics, service industries - they would be fairly accurate. The consumption impacts are the ones where the mitigation kicks in Australia with welfare payments.

Mr FARLEY - That is why in the tables, in the graphs, you see those two similarities.

Ms FORREST - That being the case, taking into account unemployment benefits or whatever, even if you did take them into account, people would still have to modify their lifestyles potentially because one would assume that their unemployment benefits are going to be less than what they are getting as employees, so they need to discretionary spend those and a lot of your retail is discretionary.

Mr FARLEY - Exactly.

Ms FORREST - The model is not totally inaccurate; it just does not perhaps pick up the entire impact of that. Is that a fair comment?

Dr O'HARA - It over-estimates consumption effects but there are still consumption effects.

Ms FORREST - Yes, thanks.

CHAIR - With round 2, people have put their hands up for a second time, and that is me for a start and then Ruth. Scenario 2 suggests, as I recall, no harvesting within the 572 000 hectares as identified by the ENGOS.

Dr SMITH - Yes.

CHAIR - Why would that be the case? Because with scenario 2 there is no bill that passes the parliament; there are no reserves. What is the prohibition on logging within the 572 000 hectares?

Dr SMITH - It is a policy decision. Where we were coming from was the potential for market disruption - people trying to get stability and non-controversial sources of wood. Your comment is very relevant. Forestry Tasmania or the government might decide that they continue business as usual and allow logging in the whole 572 000 hectares. That would actually change scenario 2.

Again, I will repeat - as it is important - that scenario 2 is just an illustration. By changing the assumptions, you can change it quite significantly. It is the probability of those actions being able to be implemented - I think that is where the judgment is.

CHAIR - On specialty timbers, if I can go to Martin, I think there is something in there about the employment numbers for specialty timbers in both scenarios but they are substantially way down on the modelling unit near the end of 200(?)**[To be confirmed. 2:14:01 inaudible]**. The underlying reason is, I suppose, because that modelling, even then, was pretty precise. In addition to that, the extension of the question is that - and it probably goes to Bob more than either of you unless you are involved in the IVG process - the IVG report suggested with regard to specialty timbers that completion of a comprehensive survey of representative firms, organisations and so on would be done. It has not been done.

Dr SMITH - No, it was never done.

CHAIR - So in terms of specialty timbers and people trying to get their minds around the real demand and supply, don't we need that robust report? Bob has alluded to the fact

that there is other work that needs to be done and should be done. So firstly, Martin, on the timbers.

Mr FARLEY - The thing with the, I think, 2008 or 2009 report, it was woodcraft and specialty timbers. It included recreational hobbyists et cetera, so there were very large numbers. What it also did was include organisations such as joinery shops where, for example, their major activity was doing kitchen cupboards, fit-outs, et cetera, because of the use of specialty timbers within that. Given the comments about overestimation in the previous report, which Andrew Denman would argue against, what we have done in this report is to identify those particular sectors that are highly dependent on specialty timbers. They don't use them as a face veneer or something like that, which is where a lot of the blackwood, for example, might exist in kitchen cupboards. We took that group out and kept in the five sectors, or whatever, that are highly dependent on solid timber of that particular type.

CHAIR - Then as to the IVG process, Bob, have you got any comment on that in terms of the specialty timbers and the completion of a comprehensive survey?

Dr SMITH - It wasn't done.

CHAIR - You would clearly say it should be done.

Dr SMITH - I think that specialty timbers is such a complex issue. It's not easy to model accurately without a much more detailed data set on where timber is used, how it is used and whether or not there are substitutes for it, and that work has not been done.

CHAIR - Staying with specialty timbers, your report indicates that under both scenarios there is a reliance on specialty species timbers from private forests. I was pretty sure that Steve Whiteley said when he was before the committee that there was little or no specialty species timbers on private land and certainly no non-blackwood species.

Dr SMITH - I will bow to his expertise, but the information we got was that in the wet sclerophyll forests in the past and under logging by Gunns there were specialty timbers produced and these were sold to the sawmills. It's a small volume. There is no doubt.

CHAIR - The figure in the report is 2 000 cubic metres. It's not a small volume in the context of 6 000 or 8 000 cubic metres.

Dr SMITH - It's a species mix. I'm not going to argue with you. It is important. There is no doubt about that. As Martin said, specialty timbers has a very, very long tail where it's re-used, re-used and it has got a product chain that most people don't appreciate.

CHAIR - You just indicated, Bob, that information you had previously received suggested to you. What do you mean by 'previously received'?

Dr SMITH - When we did the initial work for the IVG we got some anecdotal evidence of what the supply was from private property and that's what's incorporated in that. That's all it is. There are very poor statistics on specialty timbers from non-FT sources.

CHAIR - Could I conclude then if there is even less than 2 000 cubic metres from private land under either scenario, that specialty species timbers is under dramatic threat in terms of the availability of product to be used?

Dr SMITH - That's correct. Yes.

CHAIR - Is it a reasonable observation of mine to suggest that some assumptions in your report would go to the effect that unless the environmental groups back off we will have next to no market?

Dr SMITH - I don't know about no market. 'Back off', I'm not sure what you mean by that, but the in the volumes which are supplied in specialty timbers it's not only the volumes, it's also the species mix and 'am not sure where that comes out on. As I said, the majority of the specialty species is blackwood. The blackwood is easily accounted for. The one that's not accounted for is the celery top pine, the sassafras et cetera as they go into speciality markets and that's the big gap in this report because we don't have the time to follow through those impacts and there are very few substitutes for those products.

CHAIR - I suppose the question was meant more broadly than just special species timbers. My question about Greens backing off or the market attacks, if you like.

Dr SMITH - No, I'm not going to comment on that. We did a body of work that quarantine be consistent with what's in the TFA and that's what we did.

CHAIR - Am I right to understand that when you refer to mitigation measures in your report some of that includes exit packages as a mitigation measure? Wouldn't it be a reasonable observation then for a mug like me to suggest that it's unreasonable to characterise constructed job exit as a mitigation measure?

Dr SMITH - Yes, they are mitigation. They've got a temporary impact but they have got big social consequences. To alleviate that then mitigation on the other side, what you can put in long term actually reduces those social impacts on people. The exit packages are purely to do with some form of financial reimbursement, that's all.

CHAIR - Thanks very much.

Dr SMITH - Thanks very much for re-organising your time. It's much appreciated.

CHAIR - Not at all. Thank you.

THE WITNESSES WITHDREW.

Mr EVAN ROLLEY, EXECUTIVE DIRECTOR, **Mr ROBERT YONG**, GENERAL MANAGER, **Mr SIMON KANG**, EXECUTIVE DIRECTOR AND **Mr GREG HICKEY**, SENIOR RESOURCE MANAGER, TA ANN, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Harriss) - I declare the hearing reconvened and thank you Simon, Evan, Greg and Robert, for coming today. We have had your submission for a little while now plus the attachments to it. Our usual process is to advise our guests that you are protected by parliamentary privilege while appearing in this forum, which means that you can clearly speak with the protection of parliamentary privilege and therefore not have anything which you say actionable by anybody, but you are not afforded that protection when outside these proceedings and you would be aware of the sensitivities of that in terms of your own position. Another usual process of the committee is to invite our witnesses to give an opening statement if they wish to provide some context or build on the submissions which we have received.

Mr ROLLEY - Thank you, Mr Chairman, and members of the committee. As you would have before you, we prepared a short written submission because we felt it was worth recapping to members of the committee some of the key issues we believe are pertinent to the current considerations.

At the outset, the most important thing we wanted to reinforce in this opening conversation is the whole question around markets. As many of you know, I have personally worked in the forestry sector now for almost four decades and for most of that period, including a couple of decades while I was CEO at Forestry, the most important issue the industry faced was on the resource security side. The focus of that period was very much around resource security and resource certainty and pretty much all of the major policy work that was done both at a state and federal level was focused around the supply side questions.

What is different about these circumstances and why this current bill before you is so important is that for the first time it is a piece of legislation which essentially focuses on the other side, the market side, and we wanted to particularly emphasise the importance of the markets and the market issues because in the absence of profitable markets for processing companies we can have any number of supply arrangements put in place, but at the end of the day this is about whether we can profitably process wood into markets that will have certainty of supply.

In our presentation to you prior to the decision to refer the bill to a committee, we outlined to you, through our group managing director, our very real concerns about the impact of delays on markets. As we honestly briefed you at that time, we remind you in our written submission that precisely what we said might happen did happen; that is, that with the delay of the bill we were advised just prior to Christmas that we had lost another major market. I can add further that the party that stepped away from its contractual arrangements chose not to attend the briefings in Tokyo as well. They could see no point in having any further conversation until they knew whether or not the Tasmanian Forests Agreement Bill was passed.

This had a very significant financial impact on our company. It was a major customer of Ta Ann in the Tokyo market and the point we make in our written submission is that markets and their operation is a major focus and a major consideration going forward. In the absence of those markets it is impossible to profitably operate business processing hardwood in Tasmania. It is very simple.

The other thing that is important to also note here is that in terms of policy development, government cannot legislate markets. There has been a lot discussion about this bill and not having the bill and all sorts of things. Obviously you are privy to some work that has recently been done around modelling, but the most important thing that we need to be clear with you about is that in our international business experience it is quite clear that governments simply cannot legislate a market. The Australian Government cannot legislate a market in Australia, let alone legislate for an international market.

With this emphasis on markets and the importance of markets, it seems to us quite important that we find a way to meet the certainty and the credentials the market seeks. Whether we like that or not and whether we feel positive about the changes we have to make as a company in our wood sourcing or not, is irrelevant. The most important thing is that to have a profitable business in Tasmania we need support in the market. Some people have suggested we move to another market, other markets will become available. The truth is that the development of markets takes many years.

Markets are not developed like a corner store where you refit, refurbish, bring in supplies and open the door and customers walk in. Markets for wood products, whether national or international, require many years of work. There are significant barriers to entry, technical barriers, user and supplier relationships that have to be built up, supply chains that have to be established and competitive positions developed. It is not an easy thing to develop markets. Later on I will ask Simon to briefly touch on the long period of time that sits behind the development of a particular market that has been so important to our company and which is bleeding our company at this time because of the uncertainty.

The other thing I want to touch on briefly in introductory remarks is that some people have been very sceptical about why we are still operating in Tasmania. When asked the direct question, 'What will you do if the legislation is not passed into law?', our group managing director gave an honest answer. He said, 'We don't see how we can profitably operate in Tasmania'. He was sitting beside me here in December.

When the decision was made by the Legislative Council to defer the bill for committee, as a board we were faced with a very vexed question. If it hadn't been for a number of Legislative Councillors present today who contacted us and encouraged us to find whatever means it would be possible to remain, we wouldn't be here. The only reason we are here today and still operating, and losing money every day we operate in this reduced less-than-50-per-cent production mode, as we outlined in a submission and an open letter to you prior to Christmas, is that we had an extraordinary rallying of support from our suppliers, the two governments, the unions, ENGOs and the community.

We put on record to this committee today the appreciation of the board of Ta Ann for the very considerable financial and moral encouragement that was given to the company to remain and await the deliberations of this committee. I put on record the board's appreciation for the very considerable measures Forestry Tasmania and its chairman, for

example, took to remove the take-or-pay provisions of our contract and provide a new framework at reduced volumes for us to operate that relationship, the significant work the Tasmanian state government did to deal with the new wood infrastructure and the costs of our electricity supply to the Huon mill, the Australian Government's commitment to immediately commence the process of negotiation on the compensation question so we could inform our shareholders and the parent board that that matter was now in hand and there was a commitment to it, and the support the unions provided for a negotiation around our EBA terms with our employees, which saw us have to push out an extra four weeks of shutdown in operations.

Many employees had to take additional leave. The company was insistent on making payment; our employees were in a position where they weren't being paid, but there was leave and maintenance and training and without the company being prepared to underwrite the position. More importantly, at the very end there was the willingness of the ENGOs came to our support as well, giving us an indication of the durability of this agreement when they agreed, at our request, to go to Japan before the legislation was finalised and took a lot of criticism from Markets for Change and the Huon Environment Centre.

There was a very significant indication to the company that whatever happened we should attempt to hold on, and that's what we have done and that's why we are still here today. It didn't happen without a very extraordinary commitment, some significant costs and an ongoing loss of revenue. I want members to understand the significance of what had to be put together in December to get through to this point in February.

Given I have touched on this question of the markets and the time it takes to develop markets, I will ask Simon to touch on that briefly as well.

Mr KANG - Good afternoon, honourable members. My name is Simon Kang and I am the executive director of Ta Ann Tasmania. I would like to take this opportunity to explain to you about the background of the low-grade eucalyptus rotary-peeled veneer project in Tasmania.

Ta Ann Tasmania's rotary-peeled veneer mills at Huon and Smithton are the culmination of almost 15 years' work. Put simply, the rotary peeling process adds value to timber resources that would otherwise be classified as pulpwood. It is a reliable and sustainable source of hardwood veneer to replace the traditional supplies derived from the world's rainforest resources, including the South-East Asian region.

From the 1970s to mid-1980s I had a timber business in South-East Asia, but realised the region would not be able to supply sufficient timber to meet the increasing world demand due to the unsustainable management of the natural resources in some countries. When I moved to Tasmania in 1984 I saw a natural resource that was being underutilised - eucalyptus hardwood that was either being chipped or burnt.

On 24 April 1992, working closely with Forestry Tasmania, I lodged an application to the Department of Resources in Canberra seeking approval to export a trial shipment of hardwood pulp log from Tasmania to South Korea to develop future export markets to process the wood from Tasmania.

On 6 September 1992, the export licence was granted by the Minister for Resources and the following May 1993 the first hardwood export shipment from Tasmania was completed. I still vividly remember at that time those environmental activists including Geoff Law who came to the wharf to protest against that local support with their banners and then they chanted, 'Don't export our logs with jobs. It must be processed in Tasmania'

With this trial shipment for Tasmania I learned that this type of eucalyptus was not suitable for sawn timber, even at the low grade. It was prone to splitting and shrinking and had too many inherent defects, but we also learned there was a possibility that we could grow some plantation eucalyptus possibly suitable for rotary-peeled veneer products.

Forestry Tasmania together with me is spending considerable effort to research and develop new technologies for eucalyptus plywood, various new products and new potential markets. In 1995, we had our first rotary peeled trial in South Korea. This led to subsequent trials and the technology development in many countries like Japan, China, United States, Canada, New Zealand, Finland and Australia with our CSIRO. We also had these trials in these countries to promote and develop a new market for the product. The 1997 Regional Forest Agreement between the commonwealth and the state governments provide much welcomed clarification during this process. For the first time we could make sure of the sustainable volume of product supplied by Forestry Tasmania and it provided the necessary impetus to advance the project.

We also began co-operating with a machine manufacturer to develop a lathe for peeling small diameter eucalypt logs. By 2004, this manufacturer had designed and developed a circular rotating lathe. In 2002, Forestry Tasmania also embarked upon the Southwood resources project to develop the investment-ready site, establishing site infrastructure and planning approval for the Huon Wood Centre. It involved making a range of value added wood product all on the one site. It was on this site we were eventually able to establish the rotary veneer mill. For more than a decade, I have co-operated with Forestry Tasmania in seeking interested parties with the requisite financial and technical capability to establish a rotary veneer mill in Tasmania that will increase value adding, reduce wastage and burning from the clear felling.

We started looking for investors through the various companies in the different countries that had performed trial peelings. We found some companies had the market and technology but they were not financially solid. Some were financially solid but they had no market, nor the technical capacity required. Others had the financial backing, the technical capacity and the market but they had no understanding of overseas business cultures. For example, one of the Chinese companies - I talked with them about automated systems and they simply said, 'We do not need this system. Don't worry, we will send you cheap Chinese labour to Tasmania.' We cannot think this is a good idea.

However, through very careful selection by Forestry Tasmania, Ta Ann Holdings, based in Malaysia, was invited as the proponent, and it was welcomed by the state government and opposition parties, and also the commonwealth government. So, Ta Ann Holdings, in line with its visions and growth strategies had accepted the invitation to invest in low-grade eucalyptus timber processing operations in Tasmania. On 12 August 2005 Ta Ann

Tasmania was incorporated. This is the brief background of Ta Ann and our works before.

Thank you.

Mr ROLLEY - Thanks, Simon. The purpose for going through this in detail, Chair, is to indicate to members the extent of the work and the time that it takes to develop a product, and markets for those products. It is not simply a matter of just turning around and going to an alternative market. Not one single proposal - commercial proposal - has been put to Ta Ann of an alternative market that we could profitably peel veneer in Tasmania for, to this point in time. Not one.

There is all sorts of talk about what you could do here, or go to China and do this and do that. There have been various proposals put, but the specification, the quality or the price simply cannot be delivered. The most important thing for us, with our shareholders, is to ensure that we are in markets that are both sustainable, enduring and profitable, which is why we are taking great note of what our most important principal market has been saying to us in terms of this agreement.

The final point on markets - I would ask Robert to summarise for you, from the company's experience, what happened while we were in Tokyo recently.

Mr YONG - Good afternoon, Chairman and honourable committee members, and thanks, Evan. I want to recap what Evan has just said. At the end of January we arranged a trip to Japan for the two ENGO signatories, the ACF and the Wilderness Society, who promised to support the company in the market. We requested, and they went at their own expense.

We also invited the chair of Forestry Tasmania. This was the first time a [3.12.01] was called by the Australian embassy for the ENGOs, industries and FT. This was also a call by the ambassador of the Australian embassy. This was the first time all parties were speaking in one voice in the market in support of the forest agreement.

In addition to what both the ministers advised the committees, the clear message to us being sent by our customers, is the customers want certainty of sustainable supply, passage of the legislation, and support from the ENGOs. Otherwise they will not return to the Tasmanian hardwood veneer. That was a clear message to us from our customers. Evan has just mentioned, and I just want to add again, market rebuilding is going to be very slow and a very costly process for us, and our associated enterprise.

When I say I think it is a costly process, Australia is a country where manufacturing costs are on the high side, and that is the reason why we have to select a market niche to develop. In order to do that it takes time, and in order for us to potentially rebuild the markets again it takes time. We know that it will take at least 18 to 24 months to slowly rebuild market confidence in Tasmania as a source of international treated wood products.

This is the challenge we will be facing. We consider the forest agreement legislation vital to have confidence of the markets, and to the future of our business in Tasmania. That is all I want to add for the time being, thanks.

Mr ROLLEY - Thanks, Rob. There are just two other quick points, Mr Chairman, to touch on before we move on. The first one - we have obviously studied all the evidence that you have been receiving in submissions and presentations, and there are a couple of issues that have emerged in presentations that we think are quite important matters to be raised with you and corrected.

On the formal evidence, impressions may have been given, and I would ask Greg to deal with a couple of these in relation to resource questions, but I want to particularly touch on comments that were made about the prospects of this agreement for private forest owners.

There seems to be considerable misunderstanding amongst some of the representatives who have given evidence about opportunity for private forestry. The opportunity for private forests relies almost exclusively on having companies who can profitably purchase and process their wood. At the end of the day, what is essential is that there is a network of both sawmills, rotary veneer mills, export processing facilities, biomass facilities. Whatever the range of those processing companies might be it is essential for private forest owners to have access and opportunity. There is a very large number of private forest owners who have lost a significant amount of the value and potential income of their farms and their farm investments with the collapse of Gunns Ltd.

I can tell you now that if this company collapses as well, the opportunity for those private forest owners to profitably sell their sawlogs, veneer and other residue will be gone or diminished, so to suggest, as I think some have in evidence to the committee, that somehow this agreement is going to be negative for private forest owners I think misunderstands the significant opportunity that retaining sufficient gravitas in the processing sector is an absolutely critical matter. You need sawmilling, veneer in different regional areas and other processing activity and without that processing capacity the opportunity for landowners to be able to sell their wood is significantly diminished. We said in this room in December that while our principal supply will still be Forestry Tasmania, we would expect to be in a position, given the reduced supply from Forestry Tasmania, to make additional purchases progressively over time from private forest owners.

I just wanted to make certain that members were cognisant of the importance of the existing processing sector in terms of private owners realising some value from their standing timber.

Mr HICKEY - There have been a number of issues that we have observed about sourcing a private supply and our role in those processes. I want to cover today what our expectations are and how we go about it.

Our wood supply has always been predominantly focused on state forests but we have, ever since the company started, sourced some wood from private property. Forest owners, including those with plantations established over the last 20 years, will always be seeking markets for their wood to be processed. So we potentially offer, if the legislation is passed, an ongoing basis for sales of some of those products as we progressively build our markets.

In 2010, we sourced from private property over 21 000 tonnes on our own. Forestry Tasmania in arisings from some of their private property operations also supplied us with another 3 500 or 4 000 tonnes of product, so we were already taking private-property wood. We were not actively chasing this; it was wood that had been offered by private landowners as a supplement to some of the other product and as an alternative, particularly to low-priced pulpwood.

In 2011, the private property decreases, which is a reflection of the failing residue markets and the reluctance of landowners to continue to sell or to market their forests because they could not sell all the products. In 2012, there is virtually no blue band as the current situation we find ourselves in developed and landowners gradually withdrew their intent to sell privately.

The important thing about how we go about sourcing our wood is that we source it from integrated operations. These are managed predominantly by forest management companies, occasionally by contractors and in some instances by the landowners themselves. In all cases, the landowner decides on the harvest area and when to harvest. Part of the assessment to get a forest practices plan which authorises the harvesting is determining in the product mix available. Those products can include sawlogs, rotary peel veneer, pulpwood, poles, piles or whatever. Some trees produce a range of products that include rotary peeled veneer.

We have had Green groups critical of us that we are driving the harvest of native forests and we have had private property owners and other organisations that deal with private property claim that we are harvesting their future sawlogs. Most people seem to be unaware of the full range of products that are sourced from a coupe when it is harvested. If you look at our stylised tree, the best logs generally are sawlog. Once all the sawlog is used, there is potentially a log for us. Generally then there is pulpwood above that but there is an opportunity for us to take a bit more out of the pulpwood depending on the type of tree and how well it is growing.

When I talk about fully integrated operations I am talking about operations which meet a harvesting prescription described in a forest practices plan and the full range of forest products are graded to their highest value and sold to the market by that value.

There was a comment made in relation to how much wood Ta Ann wanted to source from private property. We are focused on securing our supply from Forestry Tasmania and rebuilding the market. That is the main focus. If an agreement is reached and the market is restored, there will be opportunities to purchase again private-property wood in a market for suitable veneer peel logs from private lands. If there is no agreement it is unlikely that we will be able to offer that opportunity to landowners. That is important because that is a higher value than the alternative for the logs that we take, which is the pulpwood.

We are not seeking to replace contract volume lost from state forests with private property supply - a clear fact. Somebody, I believe, intimated that we wanted to get 140 000 cubic metres of billets from private property. It is clearly not achievable and that is not our intent. What we do want is to seek to supplement our crown supply with wood available from private property as it becomes available to meet market demand. Again, these will come from integrated harvesting operations where the full range of

products are recovered in accordance with prescriptions for harvesting in the forest practices plan.

I have also included a flow chart which describes in more detail how we go about sourcing our wood. As to the colours on the flow chart, the green is the landowner, the orange is the forest management company, it could be a forest management agent or a contractor by himself, and the blue is the processors, such as ourselves.

The first point in harvesting from private property is that the landowner makes a decision that he wants to harvest and engages somebody to organise the forest practices plan for him. In this case I have used a forest management company because that's generally how we source our wood. In consultation between the forest management company and the landowner they look at what's required for the FPP, the landowner is working with the forest practices officer to develop the silvicultural system, which is the harvesting prescription they use and therefore dictates what logs they can take from that harvest area. Part of the assessment is determining what products are going to come from that harvest area. It's not definitive; forestry is not a precise science, but foresters like me who have had many years in the business can estimate reasonably well the volume of products likely to be generated by a harvesting operation.

Once that is all agreed, the draft forest practices plan is drawn up, the forest management company negotiates sales of the products with processors such as ourselves. In all the instances we deal with they're dealing with marketing to sawmills. They come to us to market the higher-grade proportion of the pulpwood, which is essentially what we take, and if there is a market for export logs, they will negotiate that. If there is a market for pulpwood or chipwood, they will negotiate that as well. So they will do all that on behalf of the landowner and then go back to the landowner. If the landowner is happy with the prices and the arrangements, he will decide to proceed. The forest practices plan is certified and in doing that the landowner signs he is giving approval for the plan to be certified, he has agreed on how his coupe is to be managed and how the operation is conducted, including what trees are to be taken and what products are likely to be developed out of that.

The operations then commence and the landowner and the forest management company have the responsibility to oversee the harvesting operations. They are looking at what's taken. Products are sorted by the highest value and the hierarchy of segregation, as we call it, and those products are delivered through the relative processes as per the agreements between the landowner, his forest manager and the processing companies.

Ta Ann requires logs that meet its specifications, not necessarily young, straight trees. Do we receive some young, straight trees as part of the process? Yes, we do, because that is part of the harvesting prescription that has been agreed for the property and the forest practices plan. How much and what we receive of those is determined not by ourselves but by the landowner and his agent in supervising their harvesting operation. As a company we don't dictate to private or public owners which trees to harvest. We simply receive logs to our specification we can use as agreed through our sale process.

I hope that clears up for members some of the issues that have been raised around private property supply, how much we want and what sort of wood resource.

Mr ROLLEY - I think that covers the main points of the presentation. The final point to make to members is one of the interesting side benefits of the period since the agreement was first struck is that we sit here now, some months after the initial agreement between the parties, and while there are varying degrees of scepticism about the durability of the agreement, on the evidence our company has the ENGOs have delivered on every single commitment they have made.

You are aware of the letters that were prepared and sent to our market last year. We have briefed you on the preparedness to come to Tokyo and speak in favour of our company, our operations, and of the agreement. Only a week or so ago further letters were prepared and sent from the ENGO signatories in support of our company in the market.

We base our view about the future on the evidence of the durability and the commitments that have been given to us and on the evidence the ENGO signatories have delivered on each of the issues at critical times, even though they have been subject obviously to some significant other criticisms that we are all aware of. I just wanted to put that on the record.

There has also been a question asked about the current World Heritage nomination and the comments that have been made about Ta Ann accepting and processing wood from coupes within that nominated area. It is very clear and on the record that Ta Ann Tasmania will not process wood arising from coupes in the World Heritage nomination. We made a commitment about that and have made that clear. We have that in writing to our principal supplier, Forestry Tasmania, and I'm sure members of the committee will understand that we simply cannot sell wood or veneer arising from those peeler billets from that nominated area.

Mr VALENTINE - This is the World Heritage Area you are talking about?

Mr ROLLEY - Yes. There has been a bit of media commentary in the last fortnight or so about that. There has been a flurry of the usual suspects writing letters of outrage. The fact is that Ta Ann Tasmania has made it quite clear that we will not be processing wood arising from coupes in the World Heritage-nominated areas.

CHAIR - Evan, I thought I heard you say very early in your contribution that the Huon Valley Environment Centre had supported you and your operations in Japan when you were explaining to the committee of some support you had received offshore?

Mr ROLLEY - No, I would never make the mistake of misquoting Jenny Weber and her followers.

CHAIR - Okay, because this is what Jenny Weber said to this committee under oath at an earlier time.

Today the nomination for World Heritage protection has been put in place. There is still the intention of Forestry Tasmania to schedule 12 coupes out of that nominated forest to be logged and Ta Ann will be receiving its timber. Ta Ann will be receiving the timber from the proposed protected forests.

It would seem to me, on your own evidence, that that is misleading at best or perjury at worst.

Mr ROLLEY - Without being pejorative about it I can say to you categorically that this company has made it very clear that it will not process wood derived from those coupes in that nomination for World Heritage. We have made that very, very clear. It has been very clear to the ENGOs who are signatories to the forest agreement. Frankly, it doesn't surprise me that the Huon Environment Centre makes statements that are incorrect because there is a history of making statements about our company which have been incorrect, including that we are processing old-growth logs in our mills. When I stand in front of the logs in the Huon mill and the average age of the logs are younger than me, I wonder whether the definition of old-growth -

Laughter.

Mr VALENTINE - Say no more!

CHAIR - The committee might at a later time make some judgments about that because the untrue statements which have been made about your company in other areas is a little bit different than people giving evidence on oath to a committee of the parliament. Anyway, I won't pursue that any further; you have given a clear indication that your company will not be taking anything out of the World Heritage-nominated area.

Mr ROLLEY - And in writing to Forestry Tasmania we wrote:

We wish to confirm our earlier verbal and email advice that Ta Ann Tasmania will not accept veneer peeler log supply from any of the 12 coupes scheduled for harvesting and which are within the proposed boundaries of the World Heritage Area nomination.

Ms RATTRAY - The date?

Mr ROLLEY - This is from 25 February, confirming another four lots of earlier emails and verbal advice because we were concerned that this mistruth about our company was gaining currency.

Ms FORREST - Do you have a response from Forestry Tasmania confirming that they will not supply you, because when you get timber into the mill, how do you know?

Mr HICKEY - They have not written back to us yet but they have undertaken not to supply. The process by which we receive logs is that each week we provide them with a demand for the week coming, they provide a schedule with the list of coupes and the volumes to come from those coupes, I check that list against the list of World Heritage coupes and as long as none of them appear on that I know they will not be wood from those coupes.

Mr ROLLEY - Can I just add, Chair, that the degree of scrutiny afforded to our day-to-day operations is more extraordinary than dental care. There is just no way that we would be in a position where we are receiving those logs. We made this clear back in December,

we made it clear in January to our customers in the market and we have been consistent with our position all the way through.

Mr HICKEY - We recommenced receiving logs on 4 February when we came back to work. The week prior to that was the first week of this new year that we received a wood schedule and Forestry Tas were aware at the time I put in our demand in that last week of January that we weren't going to take wood from the World Heritage Area coupes.

Ms FORREST - You would be aware that the Huon Environment Centre made claims early in January that Ta Ann was receiving timber from those areas and you weren't even receiving any timber at all because you were still in shutdown.

Mr ROLLEY - Correct.

CHAIR - Members here are aware of the Huon Valley Environment Centre's attitude towards Ta Ann, given that Jenny Weber said:

We are very much in opposition to that company and we don't see that we have a future here in Tasmania that is based on ethics with Ta Ann being here.

That was said in evidence during her appearance before this committee. She went on to suggest all sorts of things about your operations in Sarawak and that her intention and the intention of her movement is to address those matters and bring them to the attention of all sorts of people, the displacement of indigenous people and so on. Has your market penetration for products out of Malaysia, specifically, suffered any threat, challenge or detriment as a result of the attitude of the Huon Valley Environment Centre and others who have chosen to trash your market to the marketplace around the globe, specifically products from your operations in Malaysia?

Mr ROLLEY - The answer to that at this point in time is no. The impact of the campaigns surrounding the Ta Ann operations are to do with the plywood production component which is obviously not the whole product but a component of that which is sourced from Tasmanian eucalyptus. That is where the impact has occurred on the company's operations in that market.

CHAIR - Do you mix the peeled leaves so that maybe the outer leaves of a plywood product are from the Tasmanian forest because of their toughness and rigidity?

Mr ROLLEY - Inherent in our products from day one, as you would be aware, has been a mix of the product to use the inherent features of the characteristics of the different wood grades to produce the product. The outstanding characteristic of the Tasmanian hardwood is its hardness and durability and that confers an operational advantage. As you well know, Chair, the group managing director is known as 'Mr Eucalyptus' in the Tokyo markets and the Japan market generally because he has promoted the great virtues of eucalyptus in those product mixes.

CHAIR - You may wish to consider this an in camera environment. You mentioned the electricity supply to the Southwood site which you have developed. I don't particularly need to understand the bald extra cost to the running of the operation because of the

installation of the power lines that Ta Ann has funded. Has that been mitigated through this process?

Mr ROLLEY - Yes. The principal issue for us as a company, as you would know, was that Forestry Tasmania through Newood Holdings developed the Southwood site as an investor-ready site because of the whole history of difficulty of getting new processing in Tasmania tied to the approvals process. In order that that risk be reduced, Forestry Tasmania put together the company Newood - John Holland/FT joint venture partnership. That business then took on the commercial risk of developing the site and the infrastructure. That infrastructure included the high voltage line from Castle Forbes Bay through to the site. That capital cost in initial negotiations between Newood and the companies Transend and Aurora, was seen as a private line associated solely with that development.

The unintended consequence of Southwood not being fully developed and having a period when, of course, the sawmill was not operating as well, has meant that Ta Ann has worn a disproportionate share of the costs to service the capital for the high voltage line. There was always an argument to be had that that line providing benefits to a range of processors would have been better capitalised into the Transend or Aurora balance sheet depending on how it was considered and for the company, as other companies in Tasmania, pay for a capital contribution component and their electricity usage. In the event, that is not what was happening and so the Huon mill was operating with a very significant additional cost burden, and as one of the measures for a holding proposition the state government in those December discussions agreed to put us on an equivalent footing in the Huon to the Smithton operation. That was to take effect from the middle of January this year and I understand the billing is now progressing on that basis.

CHAIR - So the state government is contributing to the supply costs to the sites?

Mr ROLLEY - I don't know the precise details of how Treasury will deal the line but I imagine it will be capitalised back onto the balance sheet of Transend or Aurora however the new arrangements end up. We will continue to make a contribution, as you would expect, towards that capital but not be responsible for the capital in the main which was the result of the Newood structure.

CHAIR - Finally on that same thread then, has a biomass energy plant at the site ever been a part of your business mix given that cost of having electricity to the site anyway and if you could then contribute into the grid?

Mr ROLLEY - Not specifically. Certainly biomass on that site was one of the three components to really make that a fully integrated site and National Power, as you would be aware, were the selected principal proponent for that development and, unfortunately, they were not able to proceed with that development. But the ideal outcome for managing that site is to have the sawmilling operation, the veneer operation and a biomass plant making use of the residues that are not required by Ta Ann for fuel for the boiler for drying our veneer.

The other thing that's important to think about in the context of Southwood, the Newood site, is currently all of that sawn material leaves the site green so again - and I am not privy to what James and Allan Smith[**To be confirmed.**] think about the future of that -

you would have to imagine that being able to make use of the maximum amount of your residues to dry both for sawn and veneer products on that site, produce biomass from the balance even if it is on a small-scale plan, would have to be an ideal way to progress things down in the Huon.

CHAIR - Given that Ta Ann has developed on its own site in Malaysia a biomass power plant, would that be a consideration of the company for here?

Mr ROLLEY - To be fair, it isn't currently on the books but whether or not it is in the future, I guess that is an open question.

Ms FORREST - There were a couple of comments made previously by Senator Colbeck - I haven't read his evidence but I wanted to just follow it up with you - when Simon was talking about the process that unfolded to commence operations in Tasmania, you said in 1993 when you were exporting the logs there was protest action at that time and Geoff Law was one of the people involved in that. Senator Colbeck made the comment that the protest action against Ta Ann started after the forestry agreement process started. Is that true? Clearly, we weren't having forestry discussions in 1993 but when did these attacks on your markets really start, was it after the process started or has it been longer than that?

Mr ROLLEY - No. There has been action taken against the company from the first day it was announced that the company had been selected by the state government and Forestry Tasmania to be its preferred proponent for rotary veneer production in Tasmania but really it has only been in the last three or four years that significant action and activity in the market has been [taken]. There has been activity here in Tasmania but more significant activity in the Japan market has been really in the last two, three or four years.

Ms FORREST - Before the process started, though, it hasn't been going four years. The forestry agreement process I am talking about.

Mr ROLLEY - Yes, well before the forestry agreement process, sorry.

Ms FORREST - That comment he made was incorrect then?

Mr ROLLEY - Yes. The action in the markets occurred well before the forestry agreement process.

Ms FORREST - The other comment he made was that Ta Ann are in their current challenging position because of this process. What do you say to that comment?

Mr ROLLEY - The forestry agreement process?

Ms FORREST - Yes, the forest agreement process.

Mr ROLLEY - I couldn't agree with that. The circumstances that the company finds itself in are the direct result of a number of things coming together. Let's make sure that this is properly considered. The actions that have been taken against Tasmanian eucalyptus veneers in the Japan market are very significant, a very significant factor. It is the uncertainties generally that surround the supply side for wood from Forestry Tasmania

and the general economic environment that Japan has, as with most other Western democracies, faced following the global financial crisis. Our product is not inelastic to the housing and general construction activity in the Japan and Tokyo markets, so that when the Japanese construction and house ... flats and accommodation falls then there is a reduction in the requirement for flooring. There have been a number of factors that have influenced the market, but the most significant factor that has affected us has been the attacks on our market.

Ms FORREST - The process hasn't caused the problem at Ta Ann?

Mr ROLLEY - No, the process hasn't caused the problem. The process is about trying to find a way to work on this significant issue which is the markets.

Ms FORREST - Just a couple of questions, Evan. You have touched on some of these but I would just like to be a little more focused on this particular aspect. What measures has the company taken to remain in the state? You have covered some of them. You have probably covered most of them, but just a couple that I think you might not have mentioned. Further from that, because this is one of the criticisms that have been made by some players, the parties or people who have an opinion on this whole matter, is that you are only here to get compensation for the reduction in the contractual arrangements you have and you are not going to stay anyway. The next question is: what commitment will you make to stay in the state? This is the sort of thing that is being said out there and I would like this addressed and on the record.

Mr KANG - May I answer the question in a simple way, maybe a bit bluntly. We are really a timber man with a gut. We are not dealing with another world of people like the motor car people. We will be here. We will do our business, yes, as long as we know the environment allows us to carry on.

Ms FORREST - If the bill is passed in a way that reflects the agreement, because there may be some amendments and we have been told basically if the amendments don't reflect the agreement then they won't be supported by the signatories and we will still have the same problem, but if the legislation is passed to reflect the agreement, then you will stay?

Mr KANG - Of course.

Ms FORREST - And you will expand?

Mr ROLLEY - It was a categorical assurance given by the group's managing director, who, as you know, flew specifically from Malaysia to be here to meet the Council.

Ms FORREST - Unfortunately it wasn't on the record, so you might not want to put it on the record.

Mr ROLLEY - I won't verbal him because he is a dear friend, but what he clearly said was that the company is here to stay and do business in Tasmania. We would expect that [with] any condition of any compensation paid arising from the reduction we would happily sign an agreement to remain and invest in the business of producing veneer in Tasmania. The whole reason that we are still here is that K.H. Wong continued to have faith and hold on and when he saw the level of support the company had achieved in a

fortnight between the various layers of government, Forestry Tasmania, the unions, the ENGOs, it was his very strong view that we needed to maintain our business operation.

There is an unequivocal position: the company is not interested in simply collecting the cheque and departing to Bali or to Denpasar or to some other, warmer climate. The intention is to invest and try to rebuild the business in Tasmania.

Ms FORREST - Further expansion in the north was mentioned, do you want to talk about that on the record?

Mr ROLLEY - We made a decision to basically shelve the project for the time being because we were incurring an expense around developing our feasibility work, and that is one of the savings that we can make as a company in these circumstances where there is and remains uncertainty about our future. I am most reluctant to say much beyond that because each time we answer these questions obviously we are then - some people suggest that we are making these statements to put pressure on Legislative Councillors, which is a bit unfair; we are just answering the questions honestly. What we said last time still pertains; that is, a strategy to diversify both our supply side and the markets would help in these circumstances if this legislative package is passed. Part of that diversification for the company involves investment in a plywood mill and we would expect to revisit that following consideration of the parliament on the legislation.

Ms FORREST - To be more direct, Evan, if the bill is passed in the form that reflects the agreement, will you then revisit the feasibility study of the plywood mill?

Mr ROLLEY - Yes.

Mr YONG - In terms of the development of the plywood mill we have put a stop there but in terms of market developments we still continue. At the moment the assessment and development on the products we are going to eastern Australia still continue. The parent company is now looking at that and we have already started to do promotion.

Ms FORREST - In eastern Australia, in domestic markets?

Mr YONG - Yes, and promotion of sales started two months ongoing. It is ongoing because we want to make sure the bill is passed and the market is ready so we can transfer the know-how to the Tasmanian mill within the shortest time possible. That is the reason we continue with the market research and development in the parent company.

Mr HALL - Evan, as a result of your trip to Japan with the ENGOs, have you received any written commitments from your customers that they will increase their purchases from you?

Mr ROLLEY - No, not written. As Robert was outlining to you, this is the first time in my 20 years of being in that market that we had the chairman of Forestry Tasmania, the ENGOs and the processor in the room and certainly the first time that companies we have been selling TAP plywood to have said their ongoing and any future purchases are entirely dependent on what happens here. Each of the companies gave an indication to us about their future and it was entirely conditional on what happens with this legislation.

Mr HALL - In regard to the durability, Evan, in your former role at FT and the Tasmanian community forest agreement, I think then Prime Minister Howard and everybody else at that time expected the increased reservation to provide peace. This morning we had the CEO for Markets for Change before us and my take on that was she left herself plenty of wriggle room. What is your view there?

Mr ROLLEY - It is a very good question. You might imagine that I don't sleep well thinking about the consequences of all these things because this company and its operations in Tasmania are a very important piece of infrastructure for the whole industry, not just the company itself. The point I have come to personally in this is very simple. I have to judge on the performance over this period. I agree with you, Greg, about looking back at the past - your assessment of that is correct. What distinguishes the past from what we look at today is that despite our very best endeavours going back to 1989-90 with the Field minority government, when the Salamanca Agreement was reached.

As you recall, while the Salamanca Agreement was reached and signed we never got the signatures of the environmental groups on the subsequent community forest agreement. They walked away from it.

In each of the subsequent agreements, despite significant efforts made by governments, both state and federal, to have an engagement and to involve community including environment groups, the truth is there was never a sign-off from the major environmental groups. I think what distinguishes this from the past is that with this agreement there are the signatures of Phil Pullinger representing the Tasmanian environment groups, a range of them.

There is the signature of the ACF, Don Henry, and their Australian conservation establishment and there are the signatures of Vica and the Wilderness Society nationally. To me that is materially different; that is the point of difference between those other agreements.

The second question is whether there is durability. All I can honestly say to you is that despite Markets for Change being highly critical of those three groups for signing letters of support for Ta Ann, they did sign those letters at our request to try to help us stay in at least in those markets. They did come to Japan when their preference was to wait until after their consideration of the bill but we insisted that we had to; to stay alive we needed their support in January.

Just recently when there was a flood of additional emails critical of Ta Ann we again sought their support and they gave that support in writing back to the market. I am just taking this day by day, frankly. There is a signature that is there, there has been a commitment given.

I am judging behaviour on delivery and they have been delivering and I guess the durability clauses are in that agreement so if there is not delivery over time then the balance of the agreement and subsequent governments and parliaments will deal with it.

Mr HALL - I understand totally what you are saying about the signatory ENGOs. I am aware that there is that wild card out there of Markets for Change and some other

organisations like that. You were specifically talking about Markets before and they are the people who can be, if they choose to be, the real wreckers.

Mr ROLLEY - They can be, but two things come out of this. One is the importance of the FSC certification to sit alongside PEFC and I have to say to you that we are very impressed with the leadership approach that Forestry Tasmania has taken in this regard to immediately seek that certification because that will be an excellent test of durability. The extent to which that is delivered is a real test on the three ENGOs because there will be parties outside who will be pressuring the FSC process. There will be a very significant test here about delivering FSC as this journey unfolds if that is the decision of the parliament. I think that is an important thing to keep in mind.

The second thing is that the three signatory parties said in Japan to our customers that they would continue to regularly brief the markets. I am sure what Jenny Weber has said about her view on the forests is her view and that that is unlikely to ever change, but what the three ENGOs representing the vast majority of environment groups have said is that they will continue to brief the market on compliance and commitment to the agreement. Again, this is the leap of faith we as a company are being asked to take. We have taken it and thus far the evidence is that the ENGOs have delivered.

Mrs TAYLOR - I had questions about the biomass but you have already answered those asked by somebody else. In relation to what you said about being clear that Ta Ann is not going to accept wood from the nominated areas of the World Heritage area. If you do not accept that, then those coupes are not able to be harvested because Forestry Tasmania will not be able to make that a viable harvesting. Is that action not precluding those coupes being harvested, in which case they cannot possibly meet the quota?

Mr ROLLEY - No, I do not understand that to be the position. I understand that Forestry Tasmania has customers for the wood that we supply from those coupes. It is a question that needs to be addressed to Forestry Tasmania, but our understanding is that they do have customers for the range of products that we produce from those coupes and that they intend to sell those products to meet contractual obligations. What we have said and we have said right from the beginning here, back in December, is that our company cannot process and will not process wood. My understanding is, though, that they do have other customers.

Mrs TAYLOR - So you are not required for the whole chain of -

Mr ROLLEY - No, not in that instance.

Mr HICKEY - They are currently harvesting two coupes that I am aware of in our supply zone that we have refused the wood from. They are still supplying the wood from those coupes to their other customers and my understanding is they intend to continue to access those that they need and they will sell the products from those coupes to other customers.

Mrs TAYLOR - So they do not need you.

Mr ROLLEY - In that particular instance they do not.

Mrs TAYLOR - For those 12 coupes at least.

Mr ROLLEY - But they need those coupes. I am taking a Forestry Tasmania position here, but I am sure the answer to your question will be the reason that they have negotiated to still be in those coupes is because of the sawlog that is in those coupes. That will be the principal reason for them. I am sure that will be the answer. That is their main driver: how to meet their sawlog contracts. We are operating at 50 per cent of our current capacity, remember, and so it is not the driver for us at all.

Mrs TAYLOR - No, no, my concern is more about the fact that you keep being told that you cannot harvest viably on sawlogs alone. If the rest is not processed -

Mr ROLLEY - They will sell to other customers, including the export markets.

Ms FORREST - I think the peeler billets are going as chips.

Mr ROLLEY - Either as woodchips or as export logs. They are going to one of those two markets.

Adriana, the principle of an integrated harvest being the sustainable way to manage is absolutely established. It is just in relation to these particular coupes. We have no way of economically processing and selling the product.

Mrs TAYLOR - I understand that.

Mr GAFFNEY - I don't want to dwell too long on the relationship with the ENGOs going to Japan with you, Evan, but you did mention earlier on that the relationships take a long time to build up, especially in the Asian markets. We understand that. It is a bit different to here, perhaps. What was the response by the business community in Japan when they were introduced personally to the representatives of the environmental organisations that were there? I think that a lot can be attributed to how they felt because we will still get the Webers, and we will still get the Markets for Change. They were there physically; could you feel a vibe from within the room about how they viewed that?

Mr ROLLEY - Thank you for the question, Mike. The current Australian Ambassador is an exceptionally talented diplomat and has been in the Japan market and in Japan on previous occasions and he is deeply experienced in the conduct of business between Australia and Japan. He took the time to specially meet with us and to make special comment to us about the historic significance that he saw in the leadership of the Wilderness Society and the ACF being present in Tokyo for these briefings at their own expense. He highlighted to us how significantly the Japanese business community saw this development from Tasmania and he reinforced that it would be highly important that that was maintained over the coming period to progressively build further confidence.

I think it is fair to say that the room we made this presentation in at the embassy is a room I have been in on many occasions before and it was an extremely positive presentation made by each of the parties. It was well received by the leading Japanese companies who were present. We had also invited representatives of PEFC International to be present because they have been and will remain significant supporters of the Ta Ann business. We intend to maintain dual certification for our product - FSC and PEFC. They also commented very positively about the vibe from the presentations by

both Don Henry and Vica Bayley. In fact, most of the questions after the presentations were directed to the ENGOs who were present and they answered them very positively and very honestly.

Mr GAFFNEY - The Japanese business community in other areas are well aware of extreme groups trying to voice their opinion on lots of their different businesses. The fact that they had those three main groups there in the room means that they will be able to negate that or weigh that up if you get Still Threatened Still Wild throwing out a flyer or chaining themselves to whatever, because they have something to ground their concerns on.

Mr ROLLEY - Importantly, there was very clear communication from the ENGOs that, subject to the agreement being considered favourably by the parliament and passing into law, they intended to be back in the market, reinforcing their support for the agreement and for the supply from the agreed supply areas for our company. They noted that their brothers and sisters in the international environmental movement would take significant note of that fact.

Mr VALENTINE - Presumably you are aware that there were other environmental groups briefing those companies prior to your arrival. What impact do you think that had on those companies?

Mr ROLLEY - It just gave them a line of questions to ask both us and the ENGO representatives who were there and they answered them honestly. Everyone answered them honestly. The questions that have been posited by various other groups to the companies, those companies dutifully, as the Japanese always will, went through all of their questions very systematically and they were then answered by the parties who were in the room.

Mr VALENTINE - What percentage of the Ta Ann group as a whole are the Tasmanian operations?

Mr ROLLEY - Can we take that on notice? We are happy to get an answer to you. Do we make it around the sales or the assets?

Mr VALENTINE - Give me whatever you think you need to give me. I just want a picture.

Mr ROLLEY - We need to go back to the annual reports and work out the relevant percentages. We can do that.

Mr DEAN - Originally the government had an interest in Ta Ann. Do they still have that interest in Ta Ann and what has happened to it.

Mr ROLLEY - No. At the time when Forestry Tasmania and the state government selected Ta Ann to make the investment, the company requested the board of Forestry Tasmania to give greater certainty for the investors in the company and the shareholders that Forestry Tasmania take an equity interest in the development. The argument that Forestry Tasmania had at the time was that they were writing a wood supply agreement and really that should represent the equity, but given that it was the first significant manufacturing investment the company was making offshore in a new circumstance,

both the shareholder and stakeholder ministers who had to be consulted as part of the GBE requirements agreed to the 5 per cent stakeholding, but with a sell-down clause so that it would be sold back into the parent company at market value over the course of the investment. The precise date of when it would have been sold back I don't know but we can find that out for you unless someone knows -

Mr DEAN - I would appreciate it.

Mr ROLLEY - It has been sold back into the company, so Forestry Tasmania no longer has as an equity interest in Ta Ann in Tasmania.

Mr DEAN - And no other government has in any way?

Mr ROLLEY - No.

Mr DEAN - On that durability situation, you talk about the ENGO groups that were there and what they did and what they have done, but with Markets for Change, because of the high profile position that Peg Putt holds in that organisation, and Bob Brown is now connected with that group as well, that is an issue you will have to contend with. That is the issue that the Japanese markets would have some concern for as to where they fit into that whole process and who is going to have the greatest impact - the groups that were there and/or Markets for Change with the leadership of Peg Putt and Bob Brown.

Mr ROLLEY - I think at the end of the day the companies who have been purchasers of wood from us will make a judgment about where the weight of environmental support sits here and whether or not FSC certification is delivered.

Mr DEAN - FSC is going to be questionable, isn't it, while ever there is native forest logging in this state?

Mr ROLLEY - It is in the mix, Ivan, as part of this durability. It is very much in that mix. There are two things happening here. One is the extent of the groups and their support. As the elected representatives of the regional communities that we do our business in I am sure you, as well as we, will be watching this very, very closely because if there is any sign of failure of this durability then in spades it behoves the parliament to reconsider the position. I don't think there is any question about this. If the durability is not delivered then the agreement is not worth the paper it is written on.

At the end of the day there is an enormous amount riding on this. I don't know if you can make a judgment easily about the relative merits of different groups and their influence. I did hear the evidence from Markets for Change this morning. Let us remember that it is not Japanese customers of flooring product in housing who have suddenly moved against the company or companies purchasing the wood. It is the activities of Markets for Change and one or two environmental groups in Japan who have made representations to the companies and said that their preference is for this wood not to be purchased, so at the end of the day companies will make a judgment in Japan about the extent of the support from environmental groups. ACF, Wilderness Society and Environment Tasmania do represent the mainstream. They have said that, subject to the agreement being passed, they will go out there and actively support the agreement in the market, so this will be a test.

I know that we have to look at this in a light where we say it has not been done before, we have not seen it before, but this will be the test. We have tested it, not because we were deliberately setting out to, but we have had to test it since June last year. From June last year until today, on each occasion we have asked for that support it has been forthcoming in writing. We are doing this day by day, judging it on the basis of performance. Like you, Ivan, we have to have a healthy scepticism because the past is not littered with glorious success. However, the material difference is that at least on this occasion there is agreement before the parliament that does have the signatures of the major environment groups in the country. This is the first time that has occurred. The evidence of behaviour thus far is that they have been supportive.

Mr DEAN - Thank you for that. Markets for Change gave a strong message.

CHAIR - If there are durability breaches which cause revisiting by the parliament, as you have suggested, and if that causes the destruction of the agreement, where does that place Ta Ann with continuing to operate in this state given, I would presume, that market attacks would be ramped up? Then your Japanese customers primarily would be confronted with a similar situation to that which confronts them now.

Mr ROLLEY - I think in positing that question you demonstrate the counterfactual to the agreement being passed, because that is exactly what is going to happen if this agreement is not legislated. In the absence of agreement, there will be ramped-up pressure and I doubt we can be sustained in Tasmania.

CHAIR - In the event there are durability breaches which bring about that scenario which I painted, Ta Ann's continuation in Tasmania would be in deep jeopardy?

Mr ROLLEY - It's difficult to see how you could sustain profitable operations in Tasmania.

CHAIR - In that respect as to durability, I am aware of an organisation in Japan called the Japan Action Network. Are they on board with where you're travelling?

Mr ROLLEY - Japan Action, JATAN and others have thus far been in the Markets for Change camp. One of the tasks the environmental signatories to this agreement has - I know it's understood because the ACF has flagged it - is that they will need to sit down with their counterpart organisations in Japan, subject to the legislation being passed, and resolve with them that question of their current support. At the moment they are still in that Markets for Change-Huon Valley Environment Centre court. You will see their letterhead in some of their publications. That is clearly one of the tasks for the signatory ENGOs if the legislation is passed - to draw that together at the international level either directly in Japan or through the OECN. I know that is understood to be a task and would be one of the signs of the durability if that was delivered.

I absolutely understand there will continue to be people outside the process who will be critical of it. As a company the judgment we've made is whether we have the vast bulk of support with the ENGOs who are at the current table. At this stage we appear to have that support.

Mrs TAYLOR - I absolutely agree with you that the ENGO signatories appear to me to be committed, dedicated, honest, truthful and willing to do that. My concern is not with them. My concern is with the other protest groups. One of my concerns is that if this bill comes into law then, excuse me for being really honest, 300 000 hectares gets locked up straightaway, more or less, and you get compensation, I hope more or less straightaway because that is part of the deal too, but if the durability then falls over then where are we? We can't get the money back from you and we cannot get the 300 000 hectares back. That will be done. That is one of the things that concern me. Do you have a view on that?

Mr ROLLEY - Let's just deal with the question of compensation. There is a really curious thing going on around this money. I find it really, really hard to understand. If I bought a property from you and paid you \$200 000 for it and I turn up there and you have moved the house, you might expect that my lawyers would be having a chat to you. Equally, this company has spent \$79 million of its own money. It didn't make this number up. It actually spent that money because it was invited to invest in Tasmania and help diversify the hardwood processing sector. We are not asking to be treated in any way different to the sawmillers who have been asked to take a reduction in their volume. We are simply saying we made an investment, we spent real money, it is on our balance sheet as loans and equity, and if part of that volume is taken away, in this case 40 per cent, we would expect to be compensated fairly in exactly the same way as the sawmillers - no more, no less.

Mr DEAN - You weren't using that volume, were you?

Mr ROLLEY - I beg your pardon, we have been using that volume. We based the investment around having that volume and ramping up to go beyond that. Our design capacity is 300 000, which is on the record for the two mills - 150 000 for each.

I find it really curious that people somehow think that we should just say, thank you, we are pleased we spent \$79 million and you have taken 40 per cent away; you are not really owed anything at all. There is a commercial, moral, legal obligation for this company to be fairly compensated for the reduced volume from state forest arising from the agreement. What we have tried to do as a company is be as helpful and flexible as we could by saying, arrive at an answer that will deliver the sawmilling requirements. Tell us what the veneer is and then on a commercial, no-disadvantage test, we expect we will be compensated. We will reinvest our money back in our business to build it again. If the agreement falls over in your scenario, we do not expect to pay you the money back by not using it - the taxpayers' money - because something will have been taken from us and we would be reinvesting it.

On your point about the hectares in protected area, I would expect that if this agreement is not durable, then as we know there will be a state election in 2014 and the people of Tasmania will make a decision about whether or not the way forward is the agreement or not. Decisions will be made and the parliament will form a view. Frankly, that is what will be the course of action. That has been the history of Tasmania and its parliaments and the forest resource. I do not think it is possible to say that once an area goes into a reserve, if there is no durability it will stay in reserve for ever and a day. I do not believe that that is a likely proposition at all.

I think there is a real risk attached to the conservation areas if the durability is not delivered and Markets for Change and the Huon Environment Centre will need to think very carefully about these matters because the Parliament of Tasmania will not be duped by whether or not durability is delivered. I think what you say is absolutely correct. ACF, the Wilderness Society and Environment Tasmania know that full well and are being very honest with you in what they say, but if this is not delivered the Parliament of Tasmania will not be duped by false claims.

CHAIR - My last question goes to another constant allegation by the Huon Valley Environment Centre. I rely on *Hansard* to remind me that 'Ta Ann has been the key driver of the ongoing logging of the forests that need protection'. What do you say to that in terms of being the key driver, given the diagrams which Greg shared with us a while ago that you operate on arisings.

Mr ROLLEY - This is just another example in a litany of examples that could be quoted from the Huon Environment Centre in relation to our business. It is simply not a matter of fact. Ta Ann is not the key driver. Ta Ann, as we have said and Greg has outlined clearly, came into the equation to try and value-add woodchip logs.

The key driver for forest operations in Tasmania is finding sawlog. It has always been about finding high quality sawlogs from day dot - from 1920. It was the key driver for the management of the forests. Why are the rotations on native forests 80 years? Because that was the considered period needed to grow a log of suitable size and soundness and quality to produce sawlogs. If the key driver was to produce veneer, the rotations in the forests could be reduced substantially, probably more than halved. This is all nonsense. It is not factually correct.

The key driver for management of forests has always been finding sufficient high-quality sawlogs to meet our domestic hardwood sawmilling requirement. The Ta Ann business is about making use of those arisings to add value in Tasmania rather than put them on export boats either as logs or as chips. The evidence supports that position.

CHAIR - Do you have access to legal redress for those misleading comments or complete misrepresentations of Ta Ann's position?

Mr ROLLEY - That is a good question. I cannot answer you now. I do not know the extent to which we would have redress. I do know that in previous circumstances where statements have been made that were clearly not truthful about forestry companies those companies spent considerable sums of money trying to work through a legal process to have correction and have not been successful.

Ms RATTRAY - Who pays the costs of the environment groups to go and support your organisation? Is that covered off by their own funds or do they need assistance in that? I am wondering how that might work in the future if they have to spend a lot of time actually going perhaps to Japan to those markets and speaking directly with them.

Mr ROLLEY - The environment groups have met all of their own costs and intend to continue to meet those costs themselves. In fact, further to Adriana's point, there is a very transparent and very clear position that they have had from day one about this question of briefing markets. They were not going to be in the industry's pocket. They

would make their own decisions and whether they wrote a letter or provided a market briefing or went to the market, they would make those decisions themselves and they would fund them themselves. We have never offered but they made it very clear that they wanted to be absolutely independent of industry so that they could form their own view amongst their own membership and operate solely on that basis.

Ms RATTRAY - I expected that was the case.

Mr ROLLEY - That is the case.

CHAIR - Gentlemen, thank you very much; we appreciate your time.

THE WITNESSES WITHDREW.