

**THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON SCOTTSDALE
SAWMILLS MET IN PUBLIC BUILDINGS, ST JOHN STREET, LAUNCESTON,
ON THURSDAY 2 JUNE 2011.**

Mr GREG L'ESTRANGE, CHIEF EXECUTIVE OFFICER, GUNNS LTD, WAS
CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Booth) - Before we get into the formal part of the hearing, this inquiry is a proceeding of Parliament, which means it receives the protection of parliamentary privilege. This is an important legal protection that allows individuals giving evidence to a parliamentary committee to speak with complete freedom without fear of being sued or questioned in any court or place out of parliament. It applies to ensure that Parliament receives the very best information when conducting its inquiries. You need to be aware that this protection is not accorded to your statements that may be defamatory or repeated or referred to outside the confines of this committee. This is a public hearing and members of the public and journalists may be present and this means your evidence may be reported. It is important, should you wish all or part of your evidence to be heard in private, you must make that request and give an explanation prior to giving the relevant evidence. Do you wish to make an opening statement?

Mr L'ESTRANGE - I will give you some background in my involvement in the activities. Prior to the contract being let to the FEA process, I had no involvement with any of the parties around the Scottsdale operation. I had previously done a little work with Auspine, but not in relation to any of the facilities in Tasmania. That was on a consultancy basis for a period of time. Post the letting of the contracts, I did some work on the options for the Scottsdale facilities, given the outlook of the loss of the resource. The next step of involvement was when I was engaged in the capacity to head Gunns' timber products operations, commencing on 15 April 2008. That was post the acquisition by Gunns Limited of Auspine Limited. From that point on the activities around the Scottsdale operation in, I think, June 2008 resulted in the closure of the Tonganah facility when the longer-term resource allocation that was available to the mills was stabilised at around 150 000 cubic metres for a period of five years.

There are probably a number of questions that the committee would like to ask and I am happy to work through that on that basis.

CHAIR - You said you did a study of different options when the contract was not awarded to Auspine; what were they?

Mr L'ESTRANGE - If you look at the resource applications in Tasmania, there is a reasonable amount of clear wood going forward that has been pruned. I think the resource is about 80 000 cubic metres. We were looking at the viable options were for a single operation in Scottsdale undertaking much higher-value product than Auspine had traditionally competed in. If you look at the history of the two facilities up there, Auspine's history was very much around the structural wood products regime and Frenchpine looked towards a higher value, a lot more inch material, a lot more going into the decorative market.

CHAIR - They had a different allocation, too, in terms of the standard of the log, I understand.

Mr L'ESTRANGE - They balanced it out between the two mills under the previous ownership, but when Auspine took over Frenchpine the product mix and the thinking of the organisation pushed that business more towards a structural application away from the areas that Frenchpine had traditionally operated in. The study looked at the options of reverting to that, but also looking at further value-adding - finger-jointing mouldings and so forth. That was the application, but I think with the resource security there going forward there was only a five-year window that the mill had the material for. To go into a significant value-adding operation from an Auspine perspective, I don't think that was a market that sat comfortably with them.

CHAIR - So you're saying that basically, even if you transferred to that option of higher value adding, finger-jointing and wider boards presumably, cutting pruned log, there would only be a five-year supply?

Mr L'ESTRANGE - That was the outlook for the time that was available to that mill. You need a different approach to that. If you look at the market available, you'd have to look at competing much further out of Australia for that product as well, which again was outside the comfort area of the business.

Mr GUTWEIN - I have a couple of questions. When the FEA got itself into difficulties and you still had the operation running at Scottsdale, if you had been able to gain access to the wood supply that was going to the FEA mill at that time when it went into receivership, would you have been able to build on the Scottsdale site?

Mr L'ESTRANGE - You certainly would but again you would be faced with almost a replication of the Bell Bay facility in some ways with the addition which is in our agenda anyway. The configuration of the resource in Tasmania not only requires a configuration as it is in Bell Bay to get the recovery and value from a large percentage of the resource, it also needs a headrig application, which is in our plans for that facility or whoever owns it will at some stage put a headrig application into the Bell Bay facility.

This is a personal view: the failure of public policy was not that the allocation was given to FEA, the failure was that it simply had the caveat it must be constructed in the Scottsdale area. That is my personal view as a failure of policy.

CHAIR - Why do you say that? It is a personal view and it is a emotional view but do you believe that there is something inherent in section 12 of the Forestry Act that would have obliged them to maintain that supply, do you think?

Mr L'ESTRANGE - That is my personal view and if you look at the community outcome, the industry had to get an upgrade in technology. That is a fact of competing in what is a global industry and the two facilities at Scottsdale simply were not competitive, particularly in the areas of labour efficiency and recovery. That investment had to take place and should have taken place. I think that the resource owner would have been compelled to push the processor to upgrade so that they did not have to take the hit of getting bad recoveries and so forth by having a lower royalty stream but they could have

balanced that out understanding that there is a community outcome there in Scottsdale to require the employment.

CHAIR - I will just clarify that; you did actually answer the question I was going to ask about the facility, you are referring to the actual machinery and not the location at Bell Bay, but simply the processing facility?

Mr L'ESTRANGE - Simply the processing facility and that, in my personal view, the error of the whole process which has put the people at Scottsdale through what has happened. There would have been an issue around how many jobs would have been there simply because of the application of technology to be competitive given that some 60 per cent of the product has to leave Tasmania anyway.

Mr GUTWEIN - Obviously there are two aspects to this committee and its terms of reference and one is to consider what occurred in the past and then importantly to look at what the future might hold and what the opportunities are. What is currently occurring on that site in Scottsdale at the moment - Stronach Timber?

Mr L'ESTRANGE - Stronach is looking at processing, again working out what fits what businesses. There is a range of products that still will not and cannot be processed officially at Bell Bay and they are predominately the inch boards and some of the recovery applications.

CHAIR - And bigger log diameters.

Mr L'ESTRANGE - At the current stage the bigger log diameter.

CHAIR - But he thought he might put in a headrigger at Bell Bay.

Mr L'ESTRANGE - The plan is to relocate the headrigger using the Ling Siding operation and integrate that into the Bell Bay facility to give some flexibility.

Mr GUTWEIN - Now that you've announced that you'll be selling the FEA operation, with the current arrangements at Scottsdale with Stronach, do they see some longevity with that?

Mr L'ESTRANGE - At the moment that's in Stronach's hands as well as ours. Provided whoever the operator is can get the right outcome, that's sustainable.

Ms WHITE - We received evidence at our last committee meeting from Forestry Tasmania which indicated that Gunns said it wants to restart some of their logging operations on the west coast to clean up some coupes and, as part of the normal contractual relationship, they need to tell us a delivery point. That delivery point is Ling Siding, and therefore under the contract the only option they have is to saw those logs at Ling Siding. Can you expand on that? Does that mean that you are restarting operations at Scottsdale?

Mr L'ESTRANGE - We won't be starting operations at Scottsdale. There is a small amount of resource on the west coast and we have to receive them at Ling Siding. The competitive position of operating Ling Siding will never occur. There is only a limited

amount of resource there. In real terms, it is my view that Forestry Tasmania wants to implement that so that those logs can be exported.

Ms WHITE - Under the contract we understand you have to saw those logs at Ling Siding?

Mr L'ESTRANGE - Yes, and we're reviewing that so it will either mean that we can partially process those or we will not take them.

CHAIR - You're saying that FT is deliberately, in your view, forcing you to do something that's uneconomic in order not to supply them to you and export them themselves?

Mr L'ESTRANGE - Correct. You only have to visit the wharf landing opposite the facility at Bell Bay to understand that strategy.

CHAIR - So those same logs are being taken there now by FT for export, to an export yard?

Mr L'ESTRANGE - A number of those logs are being taken into a yard for FT to export at this moment.

Mr GUTWEIN - How would you describe your relationship with FT at the moment?

Mr L'ESTRANGE - I have dealt with a lot of forestry operations around Australia and they would be the most difficult people to deal with that I have ever experienced.

Mr GUTWEIN - Can you expand on that? Difficult in what way; they drive a hard bargain or they are unrealistic in the bargain they try to arrive at?

Mr L'ESTRANGE - I think they're unrealistic. My personal view is that they have a propensity for wishing to export more. We understand the market and with these logs you have to be competitive with the export, but we think that should be mixed with having to be realistic in pricing expectations. I don't understand their strategy, frankly. They should be having a competitive, long-term softwood facility, regardless of who the owner is, here in Tasmania. Relying on the export market there's a lot of vagaries. It is difficult and particularly in the softwood it is a very volatile market. Tasmania only has 500 000-600 000 cubic metres of sawlogs in the softwood area, barely enough to have one competitive-sized operation. Parties need to be working together about how you create a competitive softwood industry here, given that 60 per cent of it has to leave the island and compete not only with the larger mills on the mainland but also the imported products that are coming into Australia, which are growing by the day.

CHAIR - Do you think this strategy by FT to export those logs is damaging the capacity to start a viable softwood sawmilling industry in Tasmania?

Mr L'ESTRANGE - Absolutely, because you are already subscale. We have two disadvantages here in Tasmania. We are subscale from a softwood point of view and we are a long way from the market, so it is a disadvantage against mills that are in Mount Gambier or closer to the Melbourne market or the Western Australia market. Predominantly the product from Tasmania goes either into the Melbourne market or into the Western Australia market. They are the two main destinations, so you have a disadvantage for a start.

CHAIR - Do you think FT are deliberately trying to punish Gunns by what they are doing at the moment with the softwood logs?

Mr L'ESTRANGE - I am not in a position to say it is punishment but I think they have a desire to have a very diverse customer base which is not consistent with how you build a solid domestic manufacturing base that is competitive given that this is a local industry.

Mr GUTWEIN - What sort of tonnage is going through the FEA mill at the moment?

Mr L'ESTRANGE - We are building it up. It is about 420 000 at the moment and again there is a retraining process going on so it will probably take another three or four months to get it up to 450 000. I think the mill inherently has the capability, provided the resource is there, to move up to around 600 000 cubic metres. I put aside who is the owner of it simply because I believe the mill has the ability to be sustainable and competitive if it can continue to get the right balance of resource. If you look at the overall pool here there are three main supply groups. There is the joint venture, the resource that FT has in its own right which is scattered but still has to be nurtured and worked towards getting this balance with industry to be competitive, and there is the resource owned by Norske Skog for their operation. We are working hard with them to get the balance right because if you look at the overall balance of the industry here in Tasmania, Norske Skog need about 600 000 cubic metres of woodchip material to run their facility and the configuration they want and that can be achieved by sourcing all of the material domestically. That will require a slight change of silviculture methodology with Norske, who are growing their plantations more towards a pulp regime than a thinnings regime. We are having good discussions with that and I am hopeful that we will be able to get the balance and then take the woodchips that come from the sawmill back down to Norske Skog to replace the material that they would have from a change of regime. Then you have a sustainable balance and you have basically a softwood pulp manufacturer in the south and a facility in the north that is competitive.

CHAIR - But that is only if you can keep that volume going into one operation?

Mr L'ESTRANGE - That is right, and getting that balance right and having that sustainable outcome. All the parties, as I said, need to work together with a common goal of how you actually create a competitive softwood industry for Tasmania.

CHAIR - Have you tried to do that with FT?

Mr L'ESTRANGE - It is a more difficult and challenging goal. We have not given up and our guys are still trying to work hard with them to understand that the rationale is that we have to be competitive. We have to get the efficiencies up, we have to get the recoveries right at the facility, which are all heading in a good direction, but it is a longer-term view than just having a period over the next year of what your resource allocation is going to be. You actually have to work together for a holistic outcome for the industry.

Mr GUTWEIN - Obviously some of the displaced Scottsdale workers are working at the FEA site. How many shifts are you currently running at the FEA site? If you could get the extra resource that you've been talking about to take it between 450 000 and 600 000 cubic metres, what would be the employment opportunities at that site?

Mr L'ESTRANGE - There will be an increase in employment from that outcome as you work through, but you would have to balance that out if you look at the productivity rates in sawmills globally, as automation and computers become more advanced. Unfortunately that's the issue but it is either having a competitive operation that can be sustainable with whatever that workforce is or being uncompetitive, and that is terminal.

CHAIR - Do you have problems with FT competing against you in other operations?

Mr L'ESTRANGE - It's an interesting battle.

CHAIR - For example, recently you've been trying to sell product into China and FT has been following you around and cutting your lunch, basically, and undercutting your prices?

Mr L'ESTRANGE - Correct. I think they need to work out exactly what place they have in the market and then make that choice and be open with the customers. If they don't want to have other people in the marketplace, if they want to be the exporter they should say that's what they want to be and then everyone has an orderly conversation and you work out what you're going to do with what facilities.

CHAIR - So basically you, as a major customer of FT, are now finding that FT is competing with you to supply your customers?

Mr L'ESTRANGE - Correct.

Mr GUTWEIN - Greg, I'm presuming that your company has discussions with FT on a regular basis - or negotiations perhaps?

Mr L'ESTRANGE - Yes.

Mr GUTWEIN - I find it difficult to understand why, when we have a mill such as yours at FEA which has taken on some of the displaced Scottsdale people and is attempting to get to a level where it can be operated on a scale that makes it sustainable, you would have difficulties getting resource and that they would prefer the option to export as opposed to provide that resource to your facility. Are they suggesting that it's because of a legislative framework that they operate within or are they saying, 'Greg, we'd like to do this but we can't for these reasons', or are there are reasons? Is it personalities or a failure of them to understand the scope and scale of the market that you're operating in? What do you think it is?

Mr L'ESTRANGE - I don't think it is the legislative framework. Sometimes is it a government organisation or is it a private organisation? I think the model inherently causes whoever's there to have that conflict. I don't think it is necessarily the personalities because we're not the only ones who have difficulty in working through those issues. I think we are not a solo player in that game. The whole industry is in transition and it needs to be worked through as to exactly what it is going to be and what the framework looks like longer term. At the moment it's working through that process probably not as holistically as it needs to be for such a large and fundamental change in an industry that has a lot of components in Tasmania and a lot of people are reliant in

some way on the industry transitioning and getting it right. Getting it wrong will be an issue. The whole industry has to change, there is no doubt about that.

CHAIR - Do you think that part of getting it right could be getting FT out of the way, disaggregating them and getting them out of commercial timber production, out of the free market?

Mr L'ESTRANGE - I think they have to work out exactly what their distribution strategy is and be clear about that and pick the right partners to do that, regardless of who they are. Because largely it is going to international markets and out of Tasmania, the whole of the industry from an industry point of view has to get it right and put the right brand out there around the product that we are choosing to take from Tasmania to wherever it is in the world.

CHAIR - If you are finding that you are trying to sell product in China and FT have come behind you and cut your lunch in that regard, how does that make you feel as a company and what does it do to the relationship with FT and how do you deal with it in the long term?

Mr L'ESTRANGE - It puts a lot of strain on that but it also confuses the customer. Some of them find it very difficult to be in the position where they have these conflicting outcomes from the one supply source so it does not project us as an industry very professionally either.

CHAIR - Are you aware that your supplier, Forestry Tasmania, was going in the door after you had been talking to a customer and undercutting the prices?

Mr L'ESTRANGE - Yes, we have had that.

CHAIR - How do you cope with that?

Mr L'ESTRANGE - That is difficult; you just have to make some fundamental commercial decisions on where your business is going longer term.

CHAIR - Has that interference in your customer base by FT affected Gunns financially?

Mr L'ESTRANGE - It would be our view, yes.

CHAIR - What about the effect on employment of Tasmanians then as a result of FT interfering in the market?

Mr L'ESTRANGE - There are numerous compounding elements at the moment and probably the most significant one for the whole industry is the strength of the Australian dollar. Whether it is product going out of Tasmania onto the mainland in sawn wood or chips into Japan or China, our dollar has placed our product out of the market and I think that is the largest impact at the moment on our ability to compete. We are just so expensive in those export markets. In the Japanese market we are the only country - and it is something that we are looking at and need to look at - that actually sells in our currency, the other players sell in US dollar currency, so that harms us when the dollar is

strong and that is all they want to talk about when the dollar is strong and when the reverse happens when the dollar is weak it is about number 900 on the list.

CHAIR - Given that you have a situation that exists at the moment with FT competing against you with your own customers and going back to the withdrawal of the log supply to Auspine in the first instance, and it was said by Auspine at the time that they felt I think it was that they were being punished for their support to ending old-growth logging - a statement was made by Adrian De Bruin some years before that - and the Executive Chairman of Gunns, John Gay, said that Auspice's comments on the subject had been extremely damaging to themselves and their future in Tasmania, have you any comment with regard to the reality of that statement now?

Mr L'ESTRANGE - I think that there was a lot of conflict in the relationship with Auspine at the time. I was not involved in that but I understand the contract negotiations were very difficult and the relationship was extremely difficult. Again, it is the resource owner's prerogative to sell and put the product to a different option, if that is important or financially advantageous to it. It could have been done in a better context than taking the resource away from the Scottsdale community.

Mr GUTWEIN - Obviously FT are operating through every element of the supply chain. Where is their fit as far as you are concerned from a softwood point of view? What role should they have and what would they be best at doing? Obviously you deal with the JV, but I was interested the week before when we had Mr Gordon providing evidence. He understood that you were falling timber on the west coast and it would be transferred to Ling Siding and milled there. From his point of view everything seemed to be going swimmingly. Obviously that doesn't appear to be the case, and you've indicated to us that getting to a reasonable level of volume in that mill at the FEA site has been challenging. Where do they fit, ideally? Can you come back to this issue of the exporting again? I find that is an extraordinary situation where FT, with section 12A of the act, is still looking to export when you're looking to get volume and employ Tasmanians at George Town. It seems ridiculous.

Mr L'ESTRANGE - It is hard to realise, but it's not a recent event. If you go back even through the run-up to the contractual negotiations with Auspine, there was a significant amount of whole-log export taking place at that time as well.

CHAIR - Of log of a quality that you would saw?

Mr L'ESTRANGE - Yes.

CHAIR - The argument that FT has always made is that these logs were unfit for sawmilling here.

Mr GUTWEIN - That you don't want them.

Mr L'ESTRANGE - I don't think is necessarily correct. What the industry needs is a reliable, fit-for-purpose application. There are some areas where I think they go wrong in where they have planted some of the radiata - I'm talking about the industry generally; this is not an FT comment. We are at a little higher in altitude. It's okay for some appearance grade but the vast majority of the material, particularly with the configuration

of the current FEA facility, is that it is going to structural wood so the density requirement is a prerequisite - and altitude correlates with density.

Ms WHITE - Is Gunns harvesting any west coast timber at the moment?

Mr L'ESTRANGE - A little is coming in, but it's an issue that needs to be resolved.

Ms WHITE - That's the timber that's being delivered to Ling Siding?

CHAIR - To Ling Siding or Bell Bay?

Mr FERGUSON - It's being delivered to Ling Siding but processed at Bell Bay.

Mr L'ESTRANGE - It needs to be resolved regardless of the outcome. Taking it to Ling Siding is not the right outcome, given where the industry has restructured to.

Ms WHITE - How much would you have harvested in the last month?

Mr L'ESTRANGE - I don't have that information.

Mr FERGUSON - You have the timber being delivered to Ling Siding, but where is it being processed?

Mr L'ESTRANGE - There is only a little amount that is being delivered to Ling Siding. At the moment, and this is not a prerequisite of the west coast logs, we have softwood being milled in Western Junction and, as of this week, Deloraine, until we get a resolution, keeping those people employed.

Mr FERGUSON - I understand that, but where is it being processed?

Mr L'ESTRANGE - I think those operations, other than a load or two, have been suspended.

CHAIR - I'm not sure whether you heard that before, Mr Ferguson, but the majority of it FT is taking to Bell Bay for export overseas.

Mr L'ESTRANGE - I'm not sure how much of that is coming from the west coast. There is a catchment pool going to export at Bell Bay. Normally I think they would go to the Burnie port for that west coast area.

Ms WHITE - Under contract the wood from the west coast has to go to Scottsdale for sawing?

Mr L'ESTRANGE - Yes.

Ms WHITE - So those that have been delivered are just sitting there at the moment?

Mr L'ESTRANGE - They probably would have started up and taken a couple of faces off them and fulfilled the contract as we try to work through this outcome.

Ms WHITE - And then transported to where?

Mr L'ESTRANGE - To Bell Bay.

CHAIR - So they are just putting a saw cut down the side of the log and then doing the processing at Bell Bay.

Mr GUTWEIN - That's just a farcical situation.

Ms WHITE - Why can't you process them more thoroughly at Scottsdale?

Mr L'ESTRANGE - Because Scottsdale is simply an inefficient mill that's been closed down.

CHAIR - Back to the issue you raised a moment ago about the export of suitable sawlogs over the years, this not being just a recent aberration but something has been going for some years. Have those volumes that have been exported in the past been logs that ought to be available and would provide that critical mass that you need for 600 000?

Mr L'ESTRANGE - I believe that is what should have taken place. We should have been nurturing the resource profile and looking at it over a number of years to enable the industry in Tasmania to grow its competitive position by making sure. Mills inherently around the world are getting more efficient and the capacity is going up, so you have to look at whether are you actually growing the resource. One of the weaknesses in the whole of Australia from a softwood point of view is that we are at peak softwood in Australia at the moment because the plantings of softwood in Australia stopped in 1980. So on a 30-year rotation we are basically at the point where the market has been growing over that period and we will now have to increase our imports of the product if housing starts returning to the predicted 170 000 starts a year.

CHAIR - So FT, by cutting down the sawlogs that could have provided a critical wood flow into Scottsdale mills or any facility that was globally efficient in that sense, have effectively been the architects of the destruction of the softwood sawmilling industry in Tasmania, at least the potential?

Mr L'ESTRANGE - If you create an industry that cannot compete then the natural outcome is that you will lose jobs.

CHAIR - Which is directly as a result of the mismanagement of the resource, the exporting of future sawlogs?

Mr L'ESTRANGE - That is an outcome of their strategy to date, be it of the joint venture or whoever.

CHAIR - Who are they kicking a goal for then? They kicked an own goal and brought down Gunns by the sound of it.

Mr L'ESTRANGE - You would have to ask them. I have enough trouble running my own business.

CHAIR - Have you got any concept whatsoever of what Forestry are trying to do in regard to long-term strategy?

Mr L'ESTRANGE - On the softwood area?

CHAIR - Both.

Mr L'ESTRANGE - There are three different components of the industry here in Tasmania. There is the plantation softwood area, which we have spoken a lot about today, and the need for the whole of the industry jointly to continue to grow. I think there are some limitations on that, if you look at it over 10 or 20 years, of where it should be. We should be looking to how we are going to fill that position over time. That is an unanswered question at the moment. You have the hardwood industry that is requiring a restructure and a change. It has to get the balance right from all of this community conflict, whichever way it happens, and then working out what products and how they are going to take that to market because the sawmilling industry has to change the efficiency base here in Tasmania. If you look at our operation in Heyfield from a hardwood sawmilling prospective, we process a capacity of 155 000 cubic metres in that facility per annum. It currently employs 190 to 200 people in total to do basically from sawing through to evaluating. It has laminating lines and finger-jointing lines in that operation. That is half the total volume of the 300 000 cubic metres that is available to Tasmania. As stated, there are 3 000 people involved in that in Tasmania. It is hard to see how Tasmania can compete. We know from our own internal stuff it is very hard for our operations in Tasmania to compete with Heyfield and to land it into Melbourne where the majority of the product goes. With the efficiencies that are available within three or four years, the Heyfield operation will have 120 to 140 people. That is what the industry here will be competing with there, let alone what comes in from offshore. Then you have the plantation hardwood outcome. We have a strategy for it but we actually have to execute on that.

CHAIR - Did you say 'be executed on it' or 'execute it'?

Laughter.

Mr GUTWEIN - Coming back to the terms of reference, obviously one of the key challenges for this committee is to ensure that we end up with as much employment as we possibly can, and obviously within the north-east region there are opportunities. Ensuring that that FEA facility is available as an ongoing, viable concern is one of the key positives for the north-east. With your current contractual negotiations with FT, are you offering them a fair and reasonable price for the wood that is currently contracted to go through Scottsdale, which they are saying they won't give to you at FEA because of that arrangement that has been put in place? How does the price compare to that for the other lots of wood that you have coming through your FEA facility? Are you trying to penny-pinch or are you offering a reasonable price?

Mr FERGUSON - Are you talking about softwood, Peter?

Mr GUTWEIN - Yes, softwood.

Mr FERGUSON - If I may just supplement Peter's question, the evidence we had from FT a couple of weeks ago was that the west coast timber package to be delivered to Scottsdale represents approximately a 50 per cent discount.

Mr L'ESTRANGE - A 50 per cent discount to what?

Mr FERGUSON - On market value.

Mr L'ESTRANGE - We believe that to be incorrect. Our view of the negotiations is that for the package that we are offering in relation to consistency and reliability is pretty well benchmarked with the export outcome.

CHAIR - That is because of the transport costs from Strahan?

Mr L'ESTRANGE - Exactly. It is one thing to get a single price from an offshore customer, then having it happen reliably month-in, month-out. We recognise that we have to offer a price that is comparable to export; otherwise we shouldn't be getting that product. On a long-term, reliable arrangement, we think that the price that is offered is a competitive and comparative one.

CHAIR - So if there is not much price differential, what are FT trying to achieve by exporting it rather than giving it to Gunns at this point?

Mr L'ESTRANGE - You would have to ask them that question.

CHAIR - It is a serious question.

Mr L'ESTRANGE - It is serious for our business. Our guys in the operation there are very experienced and very focused on delivering a competitive facility at Bell Bay. They have made vast improvements and headway since we have taken it over to ensure that it is a sustainable and competitive facility.

CHAIR - So this is effectively preventing Gunns being able to possibly maintain their FEA mill -

Mr L'ESTRANGE - Longer term you have to move through the 450 000 cubic metre arrangement. We need to have a strategy around the facility and the plantation areas.

CHAIR - So it should stay on the stump and be fed out in an orderly way to local mills?

Mr L'ESTRANGE - That is right. And you have to have that transparency to make sure through the cycle. I have one spot price which should be what I give everything, but is that pricing arrangement set into a format that rewards all players, and makes sure they're both efficient?

CHAIR - How commercially damaging is this to Gunns?

Mr L'ESTRANGE - At the moment as we work up the volume, it isn't, but if you look at the facility over time, it will need more and more stable resource to ensure that it is

competitive. One of the things around these facilities is that they have to be boring and consistent to be efficient. Up and down doesn't provide that outcome.

Mr WIGHTMAN - Can I ask a clarifying question - and apologies if I misunderstood - we were told that the logs exported out of Burnie were lower grade, and that's why they were being exported as whole logs. Do you agree or disagree?

Mr L'ESTRANGE - There would be some in that format in the pulp end but we would have the view that there is also wood that is capable of being processed here but when you get into the detail of that, it comes down to what area they come from. We'd have some prerequisites, as FT would have, on density. It's our view that there is wood there that is capable of being processed domestically.

Ms WHITE - Could you confirm that the price paid for the west coast logs is about \$12.50 per cube stumpage?

Mr L'ESTRANGE - It's not so much the stumpage that you need to understand, it is what is the cost, comparatively, delivered to the wharf or to the facility. One of the issues around the resource in the west coast is that it is a long way from both and I think the discussions were that that price was also somewhat improved and offered to FT because it doesn't need to be driven past the Bell Bay door to Scottsdale and back again. There's a savings on delivery which was offered to FT as well.

Ms WHITE - You are saying that Gunns tried to negotiate a higher price for the delivery to Bell Bay?

Mr L'ESTRANGE - Yes.

Ms WHITE - I think the contractual arrangements are still current to end this year, or next year -

Mr L'ESTRANGE - This year - June, I think it is.

Ms WHITE - to deliver to Scottsdale at that price to feed the demand - it was a five-year demand that was agreed.

Mr L'ESTRANGE - That's right.

Ms WHITE - You've already said in evidence that that mill is inefficient and that's why it had to close. Can you ever see opportunities for retooling, to continue employment in Scottsdale?

CHAIR - Just to clarify that for the record, what occurred then was, Bec, that you said Gunns offered a higher price to FT to deliver them to the Bell Bay facility?

Ms WHITE - That contract was to run for five years and it doesn't conclude yet.

Mr L'ESTRANGE - Until June.

CHAIR - But you offered to effectively rearrange those terms, pay them more than to get them to Scottsdale to deliver them to Bell Bay, and they've refused.

Mr L'ESTRANGE - That's right.

Ms WHITE - Can you indicate what percentage increase you offered?

Mr L'ESTRANGE - I would have to come back to you on that. I'm happy to provide that.

Ms WHITE - That would be great, thank you very much.

Mr GUTWEIN - To wrap up this particular point, what you are telling us is that you want the wood from the west coast and you're prepared to pay a comparable price to export. In negotiations, FT has continued to frustrate that option -

Mr L'ESTRANGE - I think that we described the negotiations at this point as incomplete and we'd like to get them resolved.

Mr GUTWEIN - Do you see any light at the end of the tunnel? Are they moving at all, I guess is the question?

Mr L'ESTRANGE - They haven't shown a willingness to move so far but hopefully we'll get there.

Mr FERGUSON - Based on your comments, isn't it obvious that FT would rather just terminate the contract and find a new customer?

Mr L'ESTRANGE - That may well be their strategy.

Mr FERGUSON - It looks like it.

Mr L'ESTRANGE - But I think if you come back to the issue, the industry needs a competitive industry here in Tasmania and reducing the resource allocation isn't a means to achieve that end.

CHAIR - Is FT aware that by exporting the logs it's threatening the viability of the old FEA mill now?

Mr L'ESTRANGE - I think they understand that situation.

Mr GUTWEIN - How many ships are currently working at the FEA mill at the moment?

Mr L'ESTRANGE - Two.

Mr GUTWEIN - Are employment opportunities maxed out?

Mr L'ESTRANGE - We haven't got the volume outcome that we wanted on the two ships yet but that's a matter of training, which is going through the process. You always see the productivity go up. There are some areas in the mill that were probably not as well considered as they should have been - for example, in the stacking system - that prevents

productivity. But the guys are doing a good job and working through that, and they'll resolve them.

Mr GUTWEIN - With the Stronach Timber arrangement at the Ling Siding site, what are they actually cutting at the moment and what product are they producing for you? How many people are employed there?

Mr L'ESTRANGE - I don't have the exact number of employees, but we entered into a three-month trial with them where they'll work on predominantly the inch material that is produced at Bell Bay. They moved up there and they are doing some treating of the product there as well, and docking. So there's a range of the recovery non-structural lines that are going through their facility.

Mr WIGHTMAN - Is it somewhere around 30 employees?

Mr L'ESTRANGE - It's around that number, yes.

CHAIR - But the intention is to put a headrig at Bell Bay anyway and close Ling Siding totally at the end of the day?

Mr L'ESTRANGE - From our point of view, yes, but there is that arrangement where Stronach has moved into that facility at Ling Siding.

CHAIR - Yes, but at the moment you've got the mill on the market so if another buyer took the mill, there would be no contractual obligation presumably for Stronach's to keep operating that facility?

Mr L'ESTRANGE - The arrangement at this stage is that we're hoping to get an outcome with Stronach on that. With parts of the mill taken out, for example the headrig, to move to Bell Bay, it won't open as a timber-processing facility. It won't be sold as a timber-processing facility because a number of those bits of equipment will be relocated.

Mr GUTWEIN - Looking at the Scottsdale area, we received evidence from Mr Gordon that there were options that were being looked at - and this is perhaps asking you for a personal opinion as opposed to a company view - for the possibility of a peeler plant at Scottsdale at some stage. One of the issues that is obviously paramount in a facility like that is ensuring that you have a site that is available and that has all the necessary permits. What is your view of the potential for that down the track to occur at Scottsdale? Do you think that there is sufficient resource in the area for a peeler plant to operate? From the point of view of what you might do with the site into the future, are you supportive of that occurring?

Mr L'ESTRANGE - If we can do anything with the site to facilitate another business there, we are absolutely up for it, no issue. With the infrastructure there, whether it's Tonganah or Ling Siding, if they were to have the resource, whoever did it is going to get an outcome that's cheaper by a significant margin than going to a greenfields operation. It would be for them to take the business case and make an approach to do that. The site is there and the best thing for it is to be used in some format and we'd be very supportive if that outcome could be achieved. On the peeler outcome, it's not in my realm to work out if there is enough resource today to satisfy the capacity that's already in the State.

CHAIR - Given the evidence that you've given about FT interfering in your business and effectively competing against you, do you think it's appropriate in the long term for FT to be even thinking about creating a peeler mill in Scottsdale themselves?

Mr L'ESTRANGE - I think people should play to their strengths, and I'm not sure that they have a significant amount of history and background in processing.

CHAIR - It's a view that has been put, and put by me many times, that FT should not be competing against private industry for the growing of trees because they destroy the market ultimately and drive the price down to below the cost of production. Do you agree with that?

Mr L'ESTRANGE - On a personal view, if you look at the plantation sector, I think the governments of Australia have done their role of creating an industry base across the whole of Australia. With the technical aspects of how you deal with land to ensure that the community isn't selling the farm, so to speak, the growing and processing plantations should be the realm of the private sector and I think the governments of Australia have done their role and they should be looking to get out of it.

Mr GUTWEIN - On that basis, where do you see a role for it, bearing in mind that there's now a review into FT's operations? From your point of view as one of the major players in the market in this State, where does FT sit ideally or at all?

Mr L'ESTRANGE - There is a lot of history and expertise in natural forest silviculture. That is their strength and there are a lot of good people there that understand that so they should play to that strength, but at the end of the day the owners of those assets have to work out what they do with them.

CHAIR - Those skills could be transferred into the private sector?

Mr L'ESTRANGE - Of course. Most businesses are made up of collections of people and the badges change on, unfortunately, a too regular basis, but they are people and the direction and their skills have to be recognised and used.

CHAIR - and may be better utilised in that sense?

Mr L'ESTRANGE - Yes.

Mr FERGUSON - In some of your earlier evidence, Greg, you talked about some sort of resource swap arrangements that you are coming to with Norske Skog. You are picking up some of their volume that could be milled and I think you said you were returning volume back to them for their pulping process. It is incredibly annoying to hear, and forget about who and when and where, that Tasmania is growing pine logs and exporting them. With all the history that has occurred and the distress that has been caused and the dislocation at Scottsdale, during that debate and during that period of community aggro they were still exporting logs from Burnie. Can you give some advice to the committee as to how we could consider a recommendation to deal with this issue of actually processing within our own State and within our own employers logs that can and should be milled here, even if they are not necessarily the highest grade, and only exporting as

an absolute last resort product that is unsuitable here? But even that sounds crazy because we have a pulp mill down south that would probably use low-value product. What is your advice because it is extraordinary that we are having this debate and we are still exporting whole logs from Tasmania?

Mr L'ESTRANGE - It is extraordinary but it is getting the balance right and making sure all the parties understand the resource profile and where they need to be over time. Until in real terms the creation of the facility at Bell Bay, I think the sawmilling sector in Tasmania - and that is putting aside where it is - had not retooled to the current technology. It needed to do that to have a sustainable, viable business. We have that now. We have the Norske Skog operation in the south that consumes around 600 000 tonnes of raw material and we need to work hard to make sure we can sustain both operations. I think there is barely enough resource available. There might be some pockets of these low-density areas, and we will work through that but it may not be suitable. There are not that many players in the process. We need a resource strategy for the softwood industry in Tasmania that fits the players for today and over the next 20 years.

Mr FERGUSON - Does that mean there is no strategy at the moment?

Mr L'ESTRANGE - I don't believe that there is a coordinated view on how the industry actually fits together and how we are going to actually get the best use of that raw material. Various parties are working through that but I think Tasmania would benefit from having a clear strategy around the development of the softwood industry with a view of how much that can be processed domestically. It has all the opportunities to do that but we need to have a firm view on how we are going to achieve it.

Mr FERGUSON - There are not many players and they could fit around this table.

Mr L'ESTRANGE - They can fit around this table.

Mr FERGUSON - Who would you feel comfortable to lead that process quite properly for Tasmania to actually have a softwood industry strategy, given our limited resources and our small number of stakeholders?

Mr L'ESTRANGE - The stakeholders in the process in real terms are the grower, the two processors and government. This is about the interests of all those parties to come up with an outcome that will work sustainably, not just for today but for another 20 years.

Ms WHITE - I was curious as to the price paid for logs going to export and whole logs going through the process and eventually being turned into pulp for Norske Skog. Is there a broad difference in price or is it generally quite a good option to process on island rather than trying to export?

Mr L'ESTRANGE - Is this for pulpwood?

Ms WHITE - Yes. If we're talking about a strategy then obviously it has to be a financially sensible strategy. Is it still a better option to export because you get a better price and better return than to process it here and turn it into pulp?

Mr L'ESTRANGE - A good question. It depends on your facility and how competitive you are. If you look at the softwood pulp market at the moment, they're at an all-time high in US dollar terms. I think there are projections that the pulp price for softwood this year may well go through \$1 000 an air-dried tonne. I know that Norske Skog - and not speaking for their business - has spent money and made the transition away from eucalypt and into the softwood. There is a good balance there and we have to make sure that remains sustainable. In the industry you need an outcome for your residue and it's critical to have that outcome longer term. I think we are still exporting here about 150 000-200 000 green metric tonnes of softwood woodchip.

Ms WHITE - Is there capacity at Norske Skog to take that extra volume?

Mr L'ESTRANGE - You reshuffle some of the round logs that they're chipping that can be grown on for a period of time, substitute that with woodchip from within the island rather than export it and you get the plantation balance right over a longer period of time. Then you can have a strategy that works on how many hectares you have. I think there are 70 000 hectares in Tasmania of softwood plantations. That should give you a fundamental basis for getting an efficient overall industry.

CHAIR - You'd have to do it under FSC given Norske's push for FSC. If you're bringing in product flows from other operations they have to be FSC.

Mr L'ESTRANGE - You'd have to have the 70 per cent rule, but I think there's no reason why the players wouldn't embrace the certification to enable that to happen.

Ms WHITE - Is there any risk there with having the supply chain so structured that the prices are set to the disadvantage of the grower of the trees, for instance?

Mr L'ESTRANGE - I think there's a reasonable transparency as to what prices are. You just have to make sure that they're trend prices and not spot prices. There is a difference in supply outcome from one where you may take a boat this week to someone who is taking a consistent volume that enables the whole supply chain to be efficient and to get the right outcomes. If you look at our experience in the woodchip export business, we have a significant amount of capacity in the system that shouldn't be there because you are either operating at 140 per cent of quota or 20 per cent of quota because boats did or didn't come. All of that equipment and cost is embedded in our infrastructure, which inherently makes us less competitive than if it wasn't.

Mr GUTWEIN - You said at the start that there is effectively three growers - the JV, FT and private.

Mr L'ESTRANGE - Norske.

Mr GUTWEIN - Yes. Is there any overarching management of that resource base? They're competing against each other. Has the option ever been looked at or have discussions been entered into to attempt to get some overarching structure that provides -

Mr L'ESTRANGE - Logic would almost say that to be competitive 70 000 hectares of plantation is not a big plantation area.

Mr GUTWEIN - It is not.

Mr L'ESTRANGE - But having three management infrastructures is probably again not as efficient.

Mr GUTWEIN - No. It appears to me that if you put competing interests together if you are lucky you can end up with synergies that provide for a better outcome but, from what you have been saying, we are not getting that better outcome at the moment.

Mr L'ESTRANGE - Each has a different driver because again we do not have, for the want of a better word, a strategy for our softwood plantation sector in Tasmania which I think is a fundamental to get the right outcome for the communities and get the right benefit for those of us who are competing. Of course you will always have people having different agendas and different processes if you do not have a common view of how the whole thing can work most proactively.

Mr GUTWEIN - Moving forward, what is the sustainable yield, do you think, of that 70 000 hectares over the next 20 years? Is it 500 000, 600 000 -

Mr L'ESTRANGE - Of sawlog outcome?

Mr GUTWEIN - Yes, sawlog.

Mr L'ESTRANGE - You are probably getting close to 650 000 to 700 000 cubic metres.

CHAIR - When would that be available?

Mr L'ESTRANGE - I do not have the resource profile in my head - the next couple of years. I think it is static around the 600 000 mark.

CHAIR - Could you paint us a picture of what the Gunns' operation would look like in Scottsdale had the Taswood Growers not taken the supply contract away from those Scottsdale mills and handed it to FEA so that FEA did not get the log contracts still being cut at Scottsdale? What would Auspine and then Gunns have done in terms of those mills? What would they look like today?

Mr L'ESTRANGE - They would have needed a not dissimilar capital program to what happened at Bell Bay.

CHAIR - Auspine would have done that?

Mr L'ESTRANGE - I think they would have been compelled to do that as part of the re-tender process. The area that required to be addressed again fell just into those two areas, the optimisation and efficiencies in recovery from the sawmilling process and the technology available. Similar to what is in Bell Bay would have had to be put in to get the right value out of the raw material. Addressing the dry mill in a similar fashion to Bell Bay should have occurred and that is the normal configuration for an efficient construction mill in the world.

CHAIR - Given you were with Auspine, I think, at that stage.

Mr L'ESTRANGE - No. I did some work for Auspine.

CHAIR - It is sort of the same thing, isn't it?

Mr L'ESTRANGE - Not really.

Mr GUTWEIN - You were the architect of it.

Mr L'ESTRANGE - No.

Mr FERGUSON - I think Mr L'Estrange made it pretty clear that he had no involvement actually.

Mr L'ESTRANGE - I have been involved in the softwood sawmilling industry for a long time.

CHAIR - In terms of the picture then that we would have seen, and given the nature of Auspine and the expenditure they made in this State - they paid, I think, \$27 million or something for French's not long before this happened and invested considerably in small log lines at their own Auspine mill - do you think they would have invested in a modern facility?

Mr L'ESTRANGE - They would have had to invest in a modern facility, simply for the recovery benefits.

CHAIR - Effectively then the loss of that contract has completely destroyed absolutely the possibility of there being a modern sawmilling operation.

Mr L'ESTRANGE - As I said at the start, my personal opinion, the failure of public policy probably was not a fact that Auspine were not awarded it but it could have been an exit but the operation had to be processed.

CHAIR - At Scottsdale?

Mr L'ESTRANGE - At Scottsdale.

CHAIR - Yes, which would have gone back to that 12A under the Forestry Act.

Can I ask you about then the court case because Auspine had a case that instituted proceedings in the Federal Court with regard to the loss of that log volume and Gunns decided to drop that case. Why did they drop it?

Mr L'ESTRANGE - If you look at the balancing out, it is very difficult to get an ongoing supply of raw material when you are suing your supplier.

CHAIR - But if your supplier subsequently cutting your lunch and selling to your customers, it is an imbalance of power, isn't it?

Mr L'ESTRANGE - I think the outcome would have been if that happened there probably would not have been the last two or three years of survival at Scottsdale.

CHAIR - Is that implied or stated in terms of the case?

Mr L'ESTRANGE - I think the attitude we took at the time was that it was better to work on maintaining the operation and maintaining the employment than continuing to litigate.

CHAIR - But, as I said, was that implied or stated that that would occur to you, or did you just suddenly wake up and decide, 'Let's not do this court case because they might take our log supply away.'?

Mr L'ESTRANGE - If you look at the rationale of anyone on the other side of that, you can make a reality which is a similar case if you look at Auspine in history. At the same time they were in a similar process in Adelaide against Forestry South Australia. Again, we chose to resolve that and maintain a relationship that is still working very strongly today.

Mr GUTWEIN - There was some public discussion about this, going back a number of months, when FEA got themselves into trouble and, under the terms of the contract - in fact I asked questions in Parliament on this of the minister - with the clause that appears to be in most government contracts that if the company goes into receivership, or administration deeming the contract is voided, did Gunns attempt to get the softwood supply; would you have taken it if it had been put on the market and built it at Scottsdale?

Mr L'ESTRANGE - Absolutely.

CHAIR - And then proceeded to build a more modern mill?

Mr L'ESTRANGE - Yes.

Mr FERGUSON - Was that said? Did you make those indications known to the Government?

Mr L'ESTRANGE - Yes, we said that we'd look at that.

Mr FERGUSON - You didn't say it publicly -

Mr L'ESTRANGE - No.

Mr FERGUSON - but you did say it through the necessary channels to government?

Mr L'ESTRANGE - Yes - if that resource became available.

Mr FERGUSON - What was the response? We know the outcome but what was the rhetoric?

Mr L'ESTRANGE - I think the response was that it's in the hands of the joint venture.

CHAIR - Do you think that FT was surprised when you ended up owning the mill that it ended up with the resource?

Mr L'ESTRANGE - I don't think it was their ideal outcome.

Mr GUTWEIN - It sounds like it's been a bit of a battle.

Mr L'ESTRANGE - Yes.

CHAIR - How do you resolve it in the long term? You've got here a situation where you're the principal processors in the State for this product, the principal suppliers are either a joint venture or FT.

Mr L'ESTRANGE - The relationship with the joint venture is very solid and very good, and we work very well with them. We have a very good working relationship with the manager of that on the day-to-day operations.

CHAIR - So it's only the additional - in terms -

Mr L'ESTRANGE - The only complication we have, and again with the Norske ones, it's a process and we're working through that. It's a change, and change takes a while for everyone to get comfortable with but I think we'll get a right outcome for that because there's a win-win in it for both parties - and we hope to resolve the west coast issue as well.

Mr GUTWEIN - Why can't Forestry Tasmania see that there's a win-win in it for both parties to arrive at a reasonable outcome? I struggle to understand why we're in this situation - I'm sure you probably do as well.

Mr L'ESTRANGE - Yes. Are we the only ones that have difficult negotiations with them?

Mr GUTWEIN - The fact that very few contracts have been extended recently across the hardwood sector would probably indicate that that's the case.

Mr L'ESTRANGE - Exactly.

Mr GUTWEIN - What do you think drives their motivation?

Mr L'ESTRANGE - I'm not that smart.

Mr FERGUSON - Short-term cash?

Mr L'ESTRANGE - I'm not sure.

CHAIR - From the evidence that we've heard today, it appears that FT effectively are grossly interfering in the industry here to the point of potentially driving Gunns into financial ruin by first of all preventing you getting access to quality sawlog into your Scottsdale operation and secondly, following you around China and competing against you with your own customers and offering your customers a cheaper supply price. Are they offering it cheaper than what they supply it to you for?

Mr L'ESTRANGE - Certainly through the channels they have they've been able to offer it at a lower price.

CHAIR - So, to get this absolutely clear, we are talking here about hardwood product?

Mr L'ESTRANGE - Yes, that's hardwood chip.

CHAIR - So you are offering it to a Chinese customer at a price per tonne -

Mr L'ESTRANGE - Yes.

CHAIR - of \$167 or something like that.

Mr L'ESTRANGE - Less than that.

CHAIR - \$160?

Mr L'ESTRANGE - The current price into China -

CHAIR - That you're offering, or FT?

Mr L'ESTRANGE - The current price into China is circa \$140.

CHAIR - FT were doing it for \$116, weren't they?

Mr L'ESTRANGE - They have been very low. I don't have all of their information on that but we certainly know that we've lost some volume that we previously had on pricing through different channels. We also know that we are 30 days away from not having to have that issue.

CHAIR - Of not having to have that issue?

Mr L'ESTRANGE - Because we won't be in that market.

CHAIR - Is that why you're getting out of that market?

Mr L'ESTRANGE - Our financiers and equity players have basically given us a clear message, 'If you're in native forests, we're not your partners'.

CHAIR - I want to get this really clear from you in regard to FT providing a product. How do they get it to the customer as chips? Do they put it through Artec or something to chip it?

Mr L'ESTRANGE - Correct.

CHAIR - Can you say today whether FT is charging you more for the product which makes it impossible for you to compete? In other words, are they selling it at a price lower than your cost of production?

Mr L'ESTRANGE - At the moment you will not do business profitably at \$140 a bone-dry tonne.

CHAIR - Is it that price because FT is offering it at that price or less to your -

Mr L'ESTRANGE - No, FT are not the global price setter. Even at \$140 that is more expensive than the local wood available to the Chinese chipmills; it is still one of the high costs. We are the high-cost operator at the moment.

Mr GUTWEIN - Just to get it absolutely clear, in the softwood sector you've been unable to gain access to resource in the State from FT, even though you've been prepared to offer a comparable price to export?

Mr L'ESTRANGE - What we see the export market price to be.

Mr GUTWEIN - So you can't get that extra resource to underpin your mill at George Town. In the hardwood sector, you've had FT actively undercutting you in the Chinese market, or backdooring your own customers, so you're being destabilised on both fronts effectively by FT?

Mr L'ESTRANGE - We would have that view.

CHAIR - What effect do you think that's had on your company and the potential for financial damage?

Mr L'ESTRANGE - It certainly hasn't made operations easy.

CHAIR - Has it risked Gunns' future?

Mr L'ESTRANGE - We have charted our course and we see that the native forest area is something that isn't accessible to us as a company. We have charted that course already.

CHAIR - But this also goes to softwood?

Mr L'ESTRANGE - We see that negotiation as a work in progress. Hopefully commonsense will resolve it, but again it comes back to that longer-term view that the State needs a holistic softwood strategy.

Mr GUTWEIN - Have you taken these concerns to the minister or to the Premier?

Mr L'ESTRANGE - On the softwood side these are commercial activities and we see that, even though they are difficult and have taken longer than we anticipated, we should be able to resolve them.

Mr GUTWEIN - What about the circumstances with the hardwood - competing against a publicly owned entity, with a minister as a shareholder? Are the Government aware of these concerns?

Mr L'ESTRANGE - I think they would be aware of the issue.

Ms WHITE - Can I just ask what level of money Gunns currently owes FT and the capacity to repay that debt? Do you think that has an impact of FT's confidence to supply Gunns because they are unsure when they will get paid for the resource?

Mr L'ESTRANGE - I think the facts would show that we are probably not their slowest paying customer and, in our view, our account is current.

CHAIR - What about in their view?

Mr L'ESTRANGE - I think there are some issues outstanding and unresolved but there is a process available to both parties to resolve them.

Ms WHITE - Do you think the fact they may not view you as the best customer would influence their decision whether or not to provide you with a resource?

Mr L'ESTRANGE - I don't believe that the facts on the table would lead a person who is being realistic and commercial to have that view. If you look at the amount of material we have been able to market in a reliable, stable way, that has been very good, both in the softwood and the hardwood sector.

Ms WHITE - So it's not a factor?

Mr L'ESTRANGE - In terms of hardwood sawmill, for example, if you look at the balance of the industry, they would market roughly 25 per cent of the volume that Gunns does on a daily basis.

Ms WHITE - Are you able to indicate to the committee what amount is in dispute at the moment between yourself and FT?

Mr L'ESTRANGE - That is not something that should be divulged.

CHAIR - Would you like it in camera?

Mr L'ESTRANGE - Yes.

CHAIR - Later on we might go in camera for that.

Mr GUTWEIN - With the future of Scottsdale, post a sale of FEA do you have some confidence that hopefully that arrangement that Stronach Timber has in place would continue?

Mr L'ESTRANGE - Yes. They have been a processor there for a period of time. I think moving onto the site at the Ling Siding provides them with a little bit more flexibility that they probably did not have before, so I think there is an opportunity there for them.

CHAIR - The site is for sale at the moment?

Mr L'ESTRANGE - Not actively.

CHAIR - It is not listed with an agent?

Mr L'ESTRANGE - No.

CHAIR - You made an announcement to the ASX that I think all of your sawmilling facilities, softwood and hardwood are for sale, so it is fair to say that under that umbrella that would include that presumably?

Mr L'ESTRANGE - There is no active campaign around either of the Scottsdale facilities. As I said earlier, if there is an option that can work for the community there and is viable then we are happy to sit down and try to work through and find a resolution.

Mr FERGUSON - Do you need to maintain activity on either or both of the sites in order to maintain your local government and other State government permits to continue operating?

Mr L'ESTRANGE - With the permits, yes. Probably the only one that we are looking at actively as to whether there is an ability to maintain that is Tonganah site.

Mr FERGUSON - Is there a timing deadline that you are aware of?

Mr L'ESTRANGE - There would be but I would have to get back to you and let you know what that is.

Mr FERGUSON - I would appreciate it if you could provide that advice because that would be quite material to a future -

Mr L'ESTRANGE - The Ling Siding is active because there is still a facility operating. I haven't got an active date for Tonganah.

CHAIR - But you can do other activities - moving logs in and out, storing wood and stuff - to maintain an existing use right, which is what you are talking about.

Mr L'ESTRANGE - Yes.

CHAIR - I am going to go back to the negotiations when Taswood Growers failed to supply Auspine. Was the offer by Auspine to match any other commercial terms a proper and fair and reasonable commercial offer in that sense?

Mr L'ESTRANGE - Yes.

Mr FERGUSON - But you did put a caveat on that where you said -

Mr L'ESTRANGE - I saw the offer. Post the offer, I have seen the document where they made the offer. I did not make the offer.

Mr FERGUSON - But in today's remarks you put a caveat on that where you said that in return it would have to and should have provided for reinvestment on the site to modernise it.

Mr L'ESTRANGE - Correct. If I was the seller's side, I would have made that as a prerequisite. You don't want to enter a long-term contract with someone you know is going to be less competitive than they should be.

Mr GUTWEIN - Wouldn't the market to some extent have dictated that if they had that long-term supply they would have needed to then modernise, upgrade and do those things they would need to do, otherwise they would have seen a decreasing return for their assets regardless?

Mr L'ESTRANGE - The only thing is you then have the discomfort around it. What could have happened is if they went back to the grower and said, 'I haven't invested but I can't compete so I'll need a royalty reduction'. I would have been making sure - and this is a personal view - that there was a clause that ensured that didn't happen.

CHAIR - Did Taswood Growers have a look at the business plan for Auspine with regard to that tender? Did they ask for a business plan long term?

Mr L'ESTRANGE - I would have to go back through the Auspine files, but I think they did nothing. There was some scope provided for them.

CHAIR - It would be useful for the committee to have that information on what sort of things Taswood Growers sought as assurances from Auspine with regard to their capacity into the long term and a business plan.

Mr GUTWEIN - There was a lot of comment and public discourse about this at the time. As somebody who has been involved in the timber industry for a long time, when the decision was made not to allocate that supply to Scottsdale, when Auspine at the time was publicly stating that it had made an offer that it would match any term, any price - was it volume or grade? - that was on the table, what was your view when that contract was given to a company that had then to construct a sawmill? Standing back and looking at it - and obviously we take a very close perspective on it - as somebody who was at arm's length, what was your view at that time? It seems absurd.

Mr L'ESTRANGE - I made representation to the Federal minister of the day that it would fail.

Mr GUTWEIN - You always held the view that it would fail?

Mr L'ESTRANGE - Yes.

Mr GUTWEIN - On what basis?

Mr L'ESTRANGE - With the risk associated with transition, the ability for remarketing and changing the whole process of a new operator, and with the resource available and the capital cost, it would be extremely difficult for it to be successful.

Mr GUTWEIN - So you've been proved correct?

Mr L'ESTRANGE - Yes, unfortunately.

CHAIR - Gunns got the logs back.

Mr L'ESTRANGE - Yes, but it's not that. It is the community conflict that has happened up there and what that community has been put through; there was an opportunity for that not to happen. There would have been rationalisation and modernisation of the facility but there wouldn't have been a total loss of the outcome.

Mr GUTWEIN - So how commercial was the decision by Taswood Growers board to go down that path? You would think that they would have been considering the same potential challenges that other people in the industry could foresee, so how commercial was that decision to take that risk?

Mr L'ESTRANGE - High risk.

CHAIR - Given that your assessment was that the FEA proposal was going to fall over, and you've been proven right, why would you have different information or a different view than perhaps Taswood Growers?

Mr L'ESTRANGE - Other than I'd operated in the softwood sector selling the wood, processing the wood, building mills for a period of time.

CHAIR - But they've been managing -

Mr L'ESTRANGE - There's a difference between being a spectator and actually being involved.

Mr FERGUSON - He wants to be aware as well that at the time Taswood Growers said that the basis for their decision was the future of the softwood industry.

CHAIR - It was also said that FEA had a more competitive business plan and that in the long term they were going to be able to keep buying the wood, whereas your model perhaps wouldn't have been able to do that. Clearly the facts have revealed otherwise.

Mr L'ESTRANGE - The facts have revealed otherwise. It is very hard for a single-mill operation; with so much volume having to go outside the State you are actually then relying on wholesale distributing networks to achieve that. They don't do that for nothing and they're not as reliable, necessarily, so a one-mill operator having to not only break into the domestic market, which they had to as well because there was always wood going to be made available to Auspine and even if they shared that equally, there would have been a significant amount of competition to ensure that happened, and then having to break into the mainland market, is a pretty interesting task.

CHAIR - Do you think that Taswood Growers - and this is, unless you have other information, only a personal view - just stuffed it up and got it wrong with regard to awarding the contract to FEA or is it your view that it would be easy enough to stuff it up, that you could do it, or do you have to have some direction to award it to someone other than Auspine?

Mr L'ESTRANGE - If you go back into the history of the noise that was going around at the time, it could probably be classified as not the easiest customer.

CHAIR - Auspine?

Mr L'ESTRANGE - Yes.

CHAIR - So you think that that was part of the consideration?

Mr L'ESTRANGE - Regarding the ability to work and resolve issues, they went through quite a lengthy negotiation prior to the final process and awarding of the tender.

CHAIR - So you think the decision could have been based on personalities, rather than a proper analysis of the business cases of both participants?

Mr L'ESTRANGE - It would only be an observation. It could have got to that space, given all of the happenings that were going on at the time, concurrent with the negotiations.

Mr FERGUSON - Greg, can you give us some insight into - you may not wish to say, but I will give you the opportunity - what advice you may have received in relation to the previous attempt by Auspine when it took the decision to the Federal Court, based on section 12A of the Forestry Act? Would you be willing to give the committee an indication of what the advice was as to the likely prospects of that case, and specifically, because this has been a debating point, did 12A, in respect of awarding resource, taking into account employment impacts, apply at the time that the joint venture was formed and then did no longer apply, or did it apply at the time that Taswood Growers ever made decisions about the allocation of softwood resource?

Mr L'ESTRANGE - If you asked me for some of the information I would provide it.

Mr FERGUSON - If we wrote to you and asked for that? Do you understand the question? The Government is saying to the Opposition, when we've raised it at different times, that 12A isn't relevant in respect of January 2007 because the decision was, if you like, made some years before when the joint venture was formed.

Mr L'ESTRANGE - I think there was a parliamentary inquiry at the time that went through the process to review that. Like all cases, unless it is tested everyone has a view, including the lawyers who normally turn out to be a very expensive process.

Mr FERGUSON - Thank you.

CHAIR - But you thought you had a good case and you withdrew on the basis of the relationship at the end of the day.

Mr L'ESTRANGE - That was a commercial decision.

CHAIR - FEA were awarded a contract without a mill but then they got industry development grant - Federal government - money, I think of \$7 million or \$10 million.

Mr L'ESTRANGE - In that range.

CHAIR - What do you think about that as a commercial operator who has just lost a contract for wood supply which is awarded to someone who has not got a mill and the Government builds a mill for them partially?

Mr L'ESTRANGE - If it was creating roles, I would have a different view than one where this clearly was a net huge dislocation and loss. I do not see why an approach should have been supported where the known outcome was 200 or 300 people losing their job.

Mr FERGUSON - Chair, was that before or after the January 2007 decision by Taswood Growers? I cannot remember.

CHAIR - After.

Mr FERGUSON - That probably, just by way of comment, shows that at the time that the Federal Government awarded that grant it was, if you like, a fait accompli in terms of the awarding of softwood resource.

Mr L'ESTRANGE - Their business case should have been strong enough not to have to have that supported.

Mr GUTWEIN - Moving forward, obviously the facility at Bell Bay is now on the market at the FEA site. We are coming up to five years into the 10-year contract. Is there an option at the end of the 10 or is it a rolling five -

Mr L'ESTRANGE - There is a renewal option but I have not got that fixed in my head here.

Mr GUTWEIN - Okay, but was it a 10-year contract?

Mr L'ESTRANGE - Yes.

Mr GUTWEIN - And that is an option -

Mr L'ESTRANGE - That you have to negotiate.

Mr GUTWEIN - You have to renegotiate it at that time?

Mr L'ESTRANGE - Yes.

Mr GUTWEIN - How many Scottsdale workers are currently employed?

Mr L'ESTRANGE - Unfortunately, fewer than 20 opted to transfer of the 60 possible roles that were offered.

Mr GUTWEIN - There are fewer than 20 working there now?

Mr L'ESTRANGE - Yes.

Mr GUTWEIN - As you have taken on the second shift, have there been any other Scottsdale people that you are aware of?

Mr L'ESTRANGE - I could not tell you but I am happy to find out. I could not tell you off the top of my head.

Mr GUTWEIN - That would be useful, if you could - how many former employees are now employed there.

CHAIR - Do you think that FEA was given favoured treatment with regard to the Federal grant to construct that mill?

Mr L'ESTRANGE - As I said earlier, it is hard to understand the rationale of the support, given the impact on the Scottsdale community.

CHAIR - Perhaps a committee should look at that process of awarding that grant and make sure that it was aboveboard with regard to that, that there had not been special treatment and so forth?

Mr L'ESTRANGE - You would have to take your own advice on that.

CHAIR - You have made statements I think, Greg - and if this is incorrect, make sure you correct the record - that effectively the FEA mill if it remained within Gunns' ownership - this is prior to yesterday's announcement - assuming that it was going to remain in Gunns' ownership, unless you could bump up the volumes at the mill itself you might have to shut it anyway because it could not be internationally competitive. Is that a fair summary of what you said?

Mr L'ESTRANGE - A fair summary - and that's not going to happen tomorrow - but over the time if you have any facility, given the competing nature of the product and you have an uncompetitive business, the end outcome will be that you get to the point where you are losing cash and then a commercial decision is taken to close that business. That happens over time, it's not happening tomorrow.

CHAIR - So what was that time line that you're referring to?

Mr L'ESTRANGE - I think you could be looking at the development of the industry. The mills are now moving through the 800 000 to 900 000 to 1 million cubic metres of capacity. They're the competing ones and it gets to the stage where if you are the high-cost producer you're outside the marketplace.

CHAIR - I think that mill had a permit for 1 million cubic metres a year when it was originally applied for, didn't it?

Mr L'ESTRANGE - That would have been an ambitious ask at the time.

CHAIR - It wasn't just softwood, they were doing hardwood as well. It was just that the site had a permit. I may be wrong, but I thought it was for 1 million, recalling the ads at the time for the planning permission.

Mr L'ESTRANGE - I couldn't tell you off the top of my head. I know they were planning to process the nitens there, but probably for the last three or four years I don't think many were.

CHAIR - But obviously there was no site constraint or planning constraints to being able to bump it up to 600 000, 700 000 or 1 million cubic metres, in your view?

Mr L'ESTRANGE - No.

CHAIR - If it became unviable because of the unit cost of production through a smaller-volume mill, what would happen to the logs? Do you think they would have been chipped and exported?

Mr L'ESTRANGE - Or whole-log export.

CHAIR - Yes.

Mr GUTWEIN - I present the million-dollar question: the FEA mill that you're intending to sell, at roughly 450 000 cubic metre throughput, how attractive is that to a broader market, do you think? Does that need to be at 500 000-600 000 cubic metres to be sustainable into the longer term?

Mr L'ESTRANGE - It needs to be 500 000-600 000 cubic metres. I think it is relatively attractive because of the newness of the technology compared to a number of mills around Australia. Again, you have to keep moving that and getting your efficiencies up over time but the recoveries and the equipment to improve your recovery provides it with a better outcome than a number of other domestic mills. I think, provided it fits within a broader grouping of mills, it will work. The industry in Australia needs to consolidate because the imports that are now coming in from Europe are significant and growing at a daily rate. Unfortunately, the downstream is consolidating as well. In the hardware sector, where both the gorillas are vying - Woolworths is about to start up its hardware outlet and Wesfarmers are with Bunnings - you have to be able to take your product to market nationally to be attractive those players as well.

CHAIR - It's an undifferentiated product -

Mr L'ESTRANGE - The only differentiation is the colour of the wrapping.

Ms WHITE - Gunns have pine plantation estates in Tasmania now, is that right?

Mr L'ESTRANGE - Relatively small. There is about 3 000 hectares and the majority of it is relatively young.

Ms WHITE - So does Gunns currently export any softwood?

Mr L'ESTRANGE - There is some low-density material and chip material on the west coast. In the Surrey there was a few pockets of wood that was planted and the material that is in the density profile and that cannot come through to Bell Bay was selling on the stump to an operator.

Ms WHITE - And that is whole logs being exported?

Mr L'ESTRANGE - Yes.

Ms WHITE - Is that the type of wood that could be used by Norske Skog?

Mr L'ESTRANGE - Yes, but this is relatively old wood and relatively small volumes. I think we probably have a couple more months of that.

Ms WHITE - So there still needs to be an option to export even if we were able to initiate a strategy for softwood in Tasmania because some of the wood just is not up to standard?

Mr L'ESTRANGE - Smaller pockets of that, but again if you looked at how it all meshes together and took the statewide operations then I think everyone would have a clear view of how they are actually going to get the product to market for the right outcome for each of the operators and for the community.

Ms WHITE - So will you also be looking to sell pine plantations that Gunns currently own?

Mr L'ESTRANGE - It is a relatively small estate. Again, as I mentioned earlier, they should operate under a single management regime to get them to be efficient.

Ms WHITE - I will take that as a yes.

Mr GUTWEIN - In regard to FT and the challenges you have been facing to arrive at getting softwood resource at Bell Bay, those difficulties that you have been facing with those negotiations do they stretch across your other operations? I know the Somerset mill was in the *Advocate* a month or two ago seeking 5 000 cubic metres of hardwood. It was announced at that time that there was interest in buying that mill but it could not be sold because that hardwood was not available. Has that negotiation moved on? Are you any closer to getting that resolved?

Mr L'ESTRANGE - No closer to getting that resolved. Again there are some issues from an FT perspective on that about whether they can access the areas to provide that security.

CHAIR - The majority of their work was peeling or slicing pine.

Mr L'ESTRANGE - No, less than 2 000 of it would be pine. The majority of it is eucalypt. To date it has been flitched predominantly at Western Junction and taken over to Somerset for slicing.

Mr GUTWEIN - Obviously FT have difficulties with 5 000 cubic metres of resource for Somerset, so where does that leave the other hardwood operations that you have?

Mr L'ESTRANGE - It is almost a circular argument in a way. Until you actually work out whether there is a resolution around reserving and how much wood is available and where from, and you actually have to come to a landing on what that outcome will be and then what the resource allocation is, then how do you get that allocated resource to the most efficient mills for the industry to be sustainable?

Mr GUTWEIN - Are there a number of your mills that would be efficient?

Mr L'ESTRANGE - No. Gunns has vastly undercapitalised their mills.

CHAIR - It gets back to the undifferentiated product again. Ultimately from the value you get out of what you sell you can't cover your costs.

Mr L'ESTRANGE - You have to be efficient. There's some limited differentiation in the hardwood marketing area but with some of the products coming in now from Asia it is increasingly difficult to differentiate, so you have to be very competitive. If you're not competitive, there will be an issue. We haven't been inundated with offers for people to acquire the hardwood operations.

CHAIR - You're competing now against manufactured products of all different types. For a structural market, it's impossible

Mr L'ESTRANGE - A structural market for hardwood is over. There is some laminated-beam application areas, some F17 application, but for general framing and roofing it is very hard to convince a builder today to use hardwood over softwood.

CHAIR - Have you looked at OSB potentially for your nitens?

Mr L'ESTRANGE - We have looked at the OSB. That is probably one of the peak competitive products. The cash cost you need to be at to compete against Canada is about \$US95 and there is still about a 30 per cent capacity overhang in North America that is still making it extremely competitive. Again, basically resin, wood, labour and energy are the key components.

Mr GUTWEIN - The current hardwood mills you have, do any of them have longer term supply contracts in place or do they all finish next year?

Mr L'ESTRANGE - There is a range of different dates but nothing of a long-term nature.

Mr GUTWEIN - And that would in itself influence anybody considering a purchase?

Mr L'ESTRANGE - Of course. Anyone who would want to go into any operation would need to have some comfort that there's some tenure around the supply. The tenure and quality are prerequisites because without those you can't build your business case or address what markets you're going to go to so it becomes very difficult to come up with a financial proposition for a buyer.

CHAIR - And if it's not profitable it's just academic, isn't it?

Mr L'ESTRANGE - One of the issues that I mentioned earlier is that the competitive position of our internal facilities against our Heyfield facilities is vast.

End of public evidence - the Committee then took evidence in camera from the witness.