

THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON FORESTS MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART, ON TUESDAY 12 FEBRUARY 2013.

Mr DON HENRY, CEO, AUSTRALIAN CONSERVATION FOUNDATION AND **Mr LYNDON SCHNEIDERS**, NATIONAL DIRECTOR, THE WILDERNESS SOCIETY WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Harriss) - Welcome, gentleman. You would both be aware that in committees such as this you have the protection of parliamentary privilege, which means, the same as for members of parliament, you are protected in terms of any comment you may make, but outside the proceedings of such a committee you are not protected by privilege. There is an interesting legal principle called 'effective repetition', so you need to be careful as to what you might say to the media outside the proceedings of this committee so that anybody who might feel offended, aggrieved or defamed has the capacity to proceed to take action against you. We will give you a few moments to make any comments to the committee as a follow-up to the previous presentation of the Australian Conservation Foundation, and then there will be questions from the committee members.

Mr HENRY - I want to reiterate the statement Dr Paul Sinclair gave on behalf of the Australian Conservation Foundation in my absence and perhaps add a couple of things. Since that time, I can report to you that the signatories council has been constituted under existing legal arrangements and has started to meet. You will no doubt be aware of that. We are pleased about that. I can also report to you that we, along with the other signatories, continue to do our very best to move forward in the spirit of what we've agreed among ourselves and the spirit of this agreement.

I can report to you, and am happy to provide any further detail, I had the opportunity, along with Vica Bayley, the chairman of Forestry Tasmania and senior personnel from Ta Ann Tasmania to present at the Australian embassy in Japan to a majority of the buyers of wood from Tasmania. I would be very happy to elaborate on any of those additional elements, but I think our statement stands and reflects my own views and input.

CHAIR - Don, there has been plenty of dialogue, through this committee process, between witnesses and us members as to the expected conservation outcomes from the bill, given the aspiration is to reserve some 500 000 hectares of Tasmanian land which has a range of conservation values claimed. Could you encapsulate what the aspiration of the ACF is for conservation outcomes in the event the bill succeeds through this process?

Mr HENRY - We fully support all elements of the agreement and so we understand that this agreement has very important outcomes for industry, workers, community and conservation. We know, in coming to this agreement, those are linked at the hip and we fully support them all. The conservation outcomes in detail are spelled out in the agreement with attached maps. If I may speak to one or two elements of those, those conservation outcomes that include commitments to, for example, World Heritage nomination, reserve areas, et cetera, are spelt out in the agreement and you would be

aware they have come through a process of eventually an independent verification through a broader set of areas that were on the table, and not all the areas that environment groups thought may have values that have stood up in this report at the end of the day got through that independent verification process.

I should report to you, because ACF has a core of good science behind our work, we all around this table have made different judgments on good science, and I absolutely acknowledge that, but our own judgment was that the science applied on the verification of conservation values was strong and to the point that we accepted areas that didn't come through that process as was, for example, the independent science on wood volumes from forestry experts from the University of Melbourne as I am told by my colleagues in the industry sector and our own assessment on that as well.

CHAIR - Does anybody else have questions on that same matter before I move to another area?

Ms FORREST - Don, you said that conservation outcomes are going in the agreement; can you really identify how and where that is the case? It seems that others have suggested that this is not all about conservation values; it's about a negotiated agreed position. You also said that there were areas that just weren't identified as having conservation value during that independent verification process. It seems to me that there are not a lot of those because it seemed that the most of what was put up was noted as having conservation value. Can you give more detail around that?

Mr HENRY - I haven't brought the maps with me and that's the definitive of what shows you where but the maps were referred to in the report and you have those tendered as evidence and apologies I don't have them in front of me. They clearly show you the areas and they also show a differentiation, for example, of identified and agreed World Heritage value areas as part of the report versus others in the reserve process.

Your question is a good one and I neglected to mention one thing. Of course, as part of the agreement-making process, there was compromise: one thing was independent verification of values and that is a larger area than is actually before you in the recommended reserves because there was a very careful and lengthy and informed process of compromise among the parties as we strove to achieve adequate wood volumes identified by industry, advised by Forestry Tasmania and the independent verification, and as we strove to hold as coherent a reserve system as we felt appropriate and for our constituency, so there was another step of compromise on top of that.

If I heard you correctly with your question, you are right, the majority of areas that had been identified by the environmental groups, if you just work on percentages, have survived that process - an additional about 575 000 hectares identified - the verification process carting out in the order - and my figures won't be accurate here and if you want them accurate I am happy to tender them - of 30 000 hectares was cut out or identified as not having values and then there was an agreement-making process where a further 20 000 hectares came out. If you're talking in gross terms, that's right, much of it has survived.

Mr SCHNEIDERS - There are two ways I look at that. It is important when you are looking at the final Tasmanian Forest Agreement to look at the context of where it came from.

Going back now to 2010 and the initial statement of principles that were put together by a whole range of the same sorts of organisations, the first step was the big compromise, as Don highlighted.

In terms of the final numbers, as you all know, I think there is something like 1.5 million hectares of production native forest on crown lands in the state. In that first wave of negotiations that went on from late 2009 all the way through 2010, the first wave of cuts was the industry rightfully saying, 'Well, you're not going to get it all. We know what your policies are. We know you've got a mandated no native forest policy, you're not getting that,' and that was the first big shift for the environment groups, particularly the groups like the Wilderness Society saying, 'Okay, we understand that we have to move significantly from our policy position,' to come up with a negotiated agreement with the industry.

The first big shift was working on the work that had been done for years, both through the myriad government processes that you lot are all familiar with, the RFAs, the conservation assessments that are a vast part of that, through to the knowledge of the individual conservation groups - and, as you know, there is a very extensive network of conservationists throughout Tasmania - and bringing that all together. The first decision was basically saying, 'Okay, there's a million hectares of production native forest on public lands which is going to be available for the industry into the future'. That was the first step.

Going from just from a pure, objective, rational process of elimination, there was a public native forest estate of 1.5 million hectares, our best judgment based on the work that had been done by the science community, through the government processes and through the knowledge of our own extensive networks was that there was a million hectares that already had conservation values substantially degraded, changed or used - they had been logged - or it didn't meet the scientific criteria. That was the first big step and that was what we walked in, I guess, in the same way the industry walked in a number of recognitions themselves. Their support for that became the independent verification process around what was left of that remaining 570 000 hectares.

Aside from what Don has talked about in the process over the last several months there was the previous process and it is very important to look at the evolution of the agreement through the statement of principles, the intergovernmental agreement and then the final agreement.

Ms FORREST - Regarding the conservation values you said were contained in the agreement, Don, I don't see clearly what conservation values are contained within each of those areas on the maps. It seems that almost any area of forest would have some conservation value if you looked across broad enough criteria.

Mr HENRY - It is a very good question and Lyndon has just passed me the bedtime reading - you may not want to do this, forgive me. I can report to you that there has been a lot of work done on conservation values of Tasmanian forests and Lyndon has reported over a long period of time. The independent verification process looked at 10 crucial sets of values and our assessment is that it's very solid work and that has been used to verify those areas. If you want to know where, for instance, outstanding universal values are, the best assessment of World Heritage values, they're mapped. If you want to know

about the different layers - biodiversity, national values and landscape values - that are there, they're all in those reports. It is a bit of work to go through them.

Ms FORREST - They are in the reports but not actually in the agreement. You are suggesting that the conservation outcomes that you expect within the agreement, when Paul asked the question, was contained within the agreement, but I don't believe it's accurate to say that.

Mr HENRY - If you are asking me for more detail about the values of those areas it is all in the independent verification work.

Ms FORREST - So you relied on that in forming the agreement - that is what you are saying?

Mr HENRY - Whether it was on environment values or industry on wood volumes we all subjected ourselves, if you like, to the test of the independent verification and we all subjected ourselves to that exercise.

Mr SCHNEIDERS - That was really important I think in context. If you think about the period of time in which there had been conflict between the various groups and interests, I think a really critical recommendation that came from the statement of principles was that both industry and conservation groups needed to agree on some parameters and be satisfied with those parameters. That is why people like Alan Hansard plus Sean Cadman ended up in that independent verification group, who were people trusted by industry and conservation groups whose job was to work together to try to put something on the table that could actually stand up to what had been a long period of mistrust. I think that was one of the things that was important about it.

The terms of reference for those groups was set up by the previous version of the signatories, councils, the reference group, et cetera. As you know, if you are trying to resolve a longstanding conflict, the very first step is trying to build some trust and sometimes trust is just getting people in a room and letting them spend enough time together so they are going to speak honestly for a change. That was really what the first part of the statement of principles was about, getting to the point where people were prepared to speak honestly to each other and reveal their fears and concerns and also where their vulnerabilities were, because no-one is 100 per cent right in anything.

The big moments for me through the whole process was when industry would reveal their genuine concerns and they were also revealing to us mistakes they felt they had made in terms of industry development. We had to do the same thing and to me that was part of the building of trust. So you build the trust and then you build the structures around the trust, and building a structure like the verification group, whatever critiques that have been through the committee process I am not privy to - and I've been happily off around the world for the last month - but whatever critiques there may well be documented around it, the important thing was that the two sides of the debate were able to agree on a process which is quite a different end to the RFA experience. The RFA experience, if you guys remember the context, was complete conflict.

One of the fascinating thing as you go through these negotiation processes is hearing what the industry's concerns were from the RFA processes. We always thought to them

it was a blank cheque and happy days, but not after spending a year sitting in a room with them and hearing what they saw as lost opportunities and things that hadn't been picked up, processes that they thought hadn't been able to run the full path, and the lack of social impact assessments even 15 years ago around things like plantation establishment et cetera. For me that was the critically important thing. There are the political outputs, as Don said, for something like this plus the work that the foresters did in Melbourne University, but there is also the process in getting here which was incredibly important - actually setting some rules we could both agree on.

Mr HALL - Don, whilst we are speaking about the environment and World Heritage, it was brought to my attention yesterday that on your website there is a video, which I had a look at, with you explaining the World Heritage Area extension. The website states that the extension is old growth and also in that video you state that the whole 170 000 hectares is tall eucalypt forest. Yet I put it to that of the original 123 650 hectares on map C, less than 15 000 hectares was identified by Hitchcock and Cadman in the IV group's report 5A. Can you advise on what basis you determined the whole WHA nomination as tall eucalypt old-growth forest and, secondly, have you got the details of the make-up of the listing in terms of the loss provided by government?

Mr HENRY - Thank you very much for the question. You made need to excuse my inadequacies in doing a grab to a camera when one is summarising values. So my grab to that camera in a brief three-minute piece was not meant to or trying to be a full description of all the values.

I take your question very seriously. It is a good question: what are these World Heritage vales in the area. In the agreement-making process it was the expert advice on those areas, in fact around the 123 000 hectares that are part of the agreement, the additional areas that were already in formal reserves - I may not have the category quite correct - that governments with agreement added into that process. There is a very detailed description by Hitchcock, as you are alluding to, across the 123 000 hectares. If I gave you the impression that we were describing all of that as its own value, being the tall forest, I have to apologise as it was not my intent with the video. In a brief grab it is very difficult to give a comprehensive assessment. On our website we have people referred through to all the detailed technical reports so they can get the full, detailed information.

Mr HALL - I accept your response, Don, but what I am trying to point is here is that ACF is a leading environmental organisation, so to have a blanket description like that, people would look at that and say, 'Hang on, where is the credibility in this?' when you come across with a lead statement like that.

Mr HENRY - I am going to go back and check now you have reminded me because I hope it does not give an impression of inaccuracy. When one does something one is not always as keenly attuned as the receiver, so thank you for picking that up.

Dr GOODWIN - You mentioned that areas were left out that were part of the original ask but did not make the grade, if you like, through the independent verification process, and you said that you could provide some detail around those areas.

Mr HENRY - We can do that; they are in all in maps with descriptions on them. It is pretty finicky. There are little pieces that were, for instance, areas of plantation or areas that did not measure up and I am more than happy, if it is not before you, to make sure it is.

Dr GOODWIN - We have had quite a bit of evidence from scientists who are concerned that this process has not been undertaken from a scientific perspective and had it been undertaken on that basis there might have been a completely different outcome. So their concerns are that this process started from a point where the ENGOs had identified the original 600 000 or something hectares that you believed should be protected for conservation outcomes. Their suggestion is that what should have happened is that the whole of Tasmania should have been looked at, including private forests, if you are going to undertake a scientific evidence-based process that says these are areas with important conservation values. So their concern is that there areas that have been left out, including private forests which have important biodiversity values, and that there may well be other areas that have not been included that have higher conservation values than the areas proposed to be reserved.

I am interested in your comments on what they have raised with us about this whole process and about the outcomes that are going to be achieved.

Mr HENRY - Thank you for your question. I have not had the time to read all the *Hansard* so I am not familiar with that evidence and I cannot comment on it directly. Our own assessment is that the science that has been applied to the verification process, both on environmental values and wood volumes, is very, very sound - top class. You can imagine we have had some of our members saying, 'Hang on a sec; why have some of those areas not got up?'. We feel confident with the science so that we can explain to our membership that, no, this is done solidly; they just have not got through and we need to respect this. Our view is that the quality of the science on environment is there and stands on its own.

You are asking a very good broader question. You absolutely could do a process where you are looking at values across the whole state. As a group of signatories there were some discussions and there was a deliberate decision that you can only bite off so much, so there was a deliberate decision to focus on public lands and not private lands because there was enough complexity to resolve issues on public lands alone. There was a deliberate decision to confine what still turned out to be a very, very big and challenging job. We know there are very, very important issues on private lands. It would have taken a lot of extra time and complexity and it may not have been able to work through at the same time. From our view the science work done on the public lands is of very high quality, a high enough quality for us to say to some of our constituency, no, sorry this is solid so we go with it.

Mr SCHNEIDERS - That perspective makes sense. If you are going to do an assessment you want to have the maximum base and then work your way up. That makes a lot of sense. That is partly what all the scientific undertaking over the last 20 years has been about: trying to make surrogates without trying to work out where the research clumps are when there is actually hard data that can to be used. You guys have had a number of presentations from the Farmers and Graziers Association and Jan and folks like that. They sent us some really clear signals up front that they did not want private lands involved in this process. She has been really clear about that.

Dr GOODWIN - We dispute that. What they are saying is they are inevitably affected by what happens on the public forest -

Mr SCHNEIDERS - With respect, I have been in meetings sitting across from Jan. Jan and I had run into each other in Queensland many years ago so we had a basic level of recognition and knowledge of each other. Jan was colourful and direct, and I enjoyed that. It was nice being in a room with another Queenslander who was colourful and direct in what she was saying about what this process was going to do or not going to do on private land. She was very clear that if the private land was going to be involved in any way, shape or form, she wants the compensation scheme in place. She was very clear about that -

Dr GOODWIN - Yes, and she has been clear about that to us too.

Mr SCHNEIDERS - and I totally understood that, but she was very clear she did not want the private land involved in this process. Imagine what would have happened, first principles, if you had gone and started to do the assessment all over the state of private land with the Farmers and Graziers going, 'What are they doing? Why are they doing this? We did not agree to that'.

I agree with the core principle there that in any instance you start with the biggest base possible, but as I have said a number of times this has been an agreement between human beings and by interests who have been conflicted for a very long time. So you start with what you can get and you do rely on the scientific community being able to make surrogates to understand. As you know, there are areas identified as high conservation value which were identified on the basis of their geological formations and their connections between the CAR systems and the dolomites and what have you going off into the existing World Heritage areas. They are able to deal with some of that stuff but I agree that the first principle would be to try to do a whole-of-state assessment.

Dr GOODWIN - The other matter that has been suggested to us is that the best practice conservation maintenance or protection these days is not to necessarily lock areas up or protect them in reserves. You can continue to harvest areas and still maintain their conservation value. In fact some of the areas that are included in these proposed reserve areas have been harvested several times and still are found to have conservation values. Do you have any comment to make on that?

Mr HENRY - If you are astute, best practice is that you take a landscape-wide view. ACF is very familiar with this in our work with the National Farmers Federation over Landcare, allocation of funds across Australia with Landcare. Best practice is you take a landscape-wide approach with a lot of familiarity with that through Landcare and working with the National Farmers Federation, but within that landscape-wide approach best practice is also a comprehensive reserve system and good management of lands outside the reserve system.

Different people have different views, I acknowledge that, but a little bit uniquely this agreement contains a lot of that, apart from private lands. This agreement involves use of native forests for timber production and, as Lyndon, said that was a very big step for our organisations and this agreement involves a comprehensive reserve system. From

my own experience the shape of what you are examining and inquiring into fits that very well. Different people will legitimately have views as to whether they agree with that shape or not, and I acknowledge that, but just to report back to you.

Dr GOODWIN - On the matter that Lyndon raised around the private forest growers, would you accept this agreement inevitably will have implications for them? They are concerned. At a base level, if you have people who exit the industry - and I'm talking about contractors and sawmillers - do you accept that will inevitably have consequences for your private growers?

Mr SCHNEIDERS - I think there will be real consequences for the entire industry, which will be about beginning now to look at a development strategy for the industry that is not mired in perpetual conflict and investment uncertainty. I see a lot of consequences for private growers, which I think are positive. Don and I just met in Melbourne yesterday with one of the major retailers of timber in the country and our discussion was 100 per cent about the future of the Tasmanian native forest industry and the markets that can be accessed, particularly through the successful passage recently of the illegal tropical timbers legislation through the federal parliament. It is going to open up a world of new products for Australian hardwood timbers that have presently been priced out because they have been dumped by illegally sourced, cheap tropical rainforest logging in South East Asia. I don't know what your question was about but my question back would be that I can see a lot of consequences. I can see good consequences where through FSC certification on public lands and whatever is possible on the private lands, depending on the private growers and where they want to go, I can see a whole range of new markets, controversy free. What the agreement is doing at its heart is creating a viable future for a regrowth native forest timber industry.

Dr GOODWIN - Except there could be some bad consequences.

Mr SCHNEIDERS - No, because the issues you raise are about the industry shrinking below a critical mass, which was what was Terry and other's minds all the way through the negotiations. That is why they were so steadfast on particular cubic metres per year to be available. It was around critical mass, making sure there were enough contractors and workers, and making sure the forest agency had enough volume to make a profit. All that was very real but if you have growing markets, if you are able to access more markets, particularly domestically, the industry starts to grow and with the growth you start getting the contractors back and investment into the heavy haulage back. You can do those things and the banks will give you money for it.

Dr GOODWIN - So this is all predicated on the peace being achieved and the markets being satisfied.

Mr SCHNEIDERS - It is predicated on the continued hard work everyone is doing, including yourselves, in trying to find a pathway forward.

Don said in his opening statement that everyone got a bit upset late last year because we were all under pressure and it was the end of the year, but everyone went straight back to work, including the signatories. You guys went straight back to work; you called this committee quickly and did a lot of hard work after last month and you keep going. We did the same. Don and I play tag team. He has a bit of time off and I have a bit of time

with my family. He goes to Japan and I run around down here. We have all been working very hard. Terry has been working very hard. Everyone has been busting to move this forward.

Mrs TAYLOR - We are still on supplementaries and I want to keep exploring that issue because that, for me, has become really critical and almost new information over the last couple of weeks. I understand why you are wanting to limit the amount of logs but did the signatories consider limiting the amount of logs but not necessarily from such a small area so you could still have had the limit of logging happening in native forests but over a bigger area because we have been told tread lightly widely is internationally now a far better recognised process?

Mr HENRY - I probably just echo what I said just before. I am not quite sure I would agree with that international definition. I do think two things have to be achieved in modern good management of natural resources. You have to ensure that you have protection, that you look after some of it and then you do have to ensure you have best practise and also efficient industry built around some of it as well. Your question was to balancing there and I suppose just to report to you this agreement was all about that very difficult balancing and it was about not just people sitting around a table saying what do we think of this balance because it is a very sincere, very genuine, very committed process of bringing as much of our constituencies along as we could.

That is both from the environment and the industry side and I would want to pay tribute to colleagues in the industry, in the union and Timber Communities Australia. We have all had parts of our constituencies that are very uncomfortable from shifting from business as usual but we all knew it is not working and so I am not probably answering your question. There was balancing there but there was a really difficult and very genuine process in balancing that has achieved this agreement but we have a confidence that we have brought a centre of gravity out of our constituencies along with it.

Mrs TAYLOR - I understand that with the greatest admiration for all of you for sitting around the table and being willing to all contribute to giving something away for something that you wanted back but I am just a bit concerned with what we have heard over the last couple of weeks that maybe the focus changed - I mean that someone like Rod Knight who you have used and everybody has used, both sides.

Mr SCHNEIDERS - I know Rod well.

Mrs TAYLOR - If you haven't seen his evidence on *Hansard* it would be really useful to look at that because he said it is really important to conserve areas of high conservation value and he believes that this agreement does not do that, that there are still areas in which case I would fully understand the conservation groups still saying that we have not achieved, not yourselves but others, saying we have not achieved that. Here is a little small area of high conservation value that has been left out and he said that, too. He said around the state, which is pointing to Vanessa's question about the audit, I suppose, in a sense so that in some senses the conservation movement has given away areas that they should not have given away and on the other hand have achieved, if you like, the amount rather than necessarily the highest bits.

The corollary of that is that the industry has given away or has now got only so much state working forest that they are going to over cut that over time and certainly Mr Knight was suggesting that it would have been better to have a much bigger area and cut a lot less. Did you consider the amount was really one of the things that you wanted; you wanted less logging?

Mr SCHNEIDERS - It is really interesting. Rod goes back a long way, too, in the environment movement. He has been in the Wilderness Society when I first got my job years ago and I think Rod might have been on the selection panel so I know Rod really well. There are a couple of things and one of the things that was interesting to me was for a long time the environment movement's view around forests and in particular the expansion of industrial forestry from the 1970s onwards with the realisation of the new markets in Japan and the need to create lots of volume and make money out of every bit of the tree that you got. There were many sections of the environment movement that were advocating a return to a different sort of logging practise which had been the previous selective logging practices. They have been a key part of what environmentalists have talked about for a long time.

Even today I think it was one of the reasons why small sawmillers and people like my old boss have a nice relationship together because they are both talking about what the industry looked like before clear felling, what the industry looked like before heavy mechanisation. They talked about an industry that was much more labour-intensive and therefore created more jobs in regional and small communities. They were talking about the former industry. I had a lot of sympathy for that, too, because my family come from the Central Highlands in Victoria, a logging town, et cetera, so I totally understood what the arguments were and also the sense of the desire for an industry that was less mechanised, less - I would argue - destructive, and provide many more jobs.

One of the things that has become clear to me over the years is that that model is economically unsustainable and from a workplace health and safety perspective, the model of intensive logging on small patches of country, whatever damage it may do to the environment and anything else, is the safest form of logging for workers. Obviously, it involves fewer workers and that is the process of mechanisation, which as you know, has gutted out a whole bunch of remote, rural and regional Australia over the last 40 years. I don't know how to turn that around. If we were in the circumstances where it was viable for an industry to base itself on selective logging, then I would be there. That was a key part of the discussion all the way through: is there a different form of logging? This is particularly when we start to talk about higher quality uses of the timber, higher returns of the timber, safer processes, ones that would also allow for FSC most easily; so there was a very detailed discussion. There is a whole bunch of people inside the timber industry and the forest agencies who still would like to see that industry in place.

I guess I have been convinced by both people like Jane and the unions around worker safety issues and also via other heads of the industry who are saying you cannot make a dollar out of that model. But they also have an argument - I am not going to run their arguments for them, but I thought I would relay it for you - but they also run an argument that after 100 years of selective logging, they basically have severely depleted the gene pool of good standing stock and what was left was in their minds in terms of products they were looking for, deficient remaining timber stand. That is their argument

for the introduction of clear cutting was basically that they had already gobbled the good stuff for sawmilling purposes and they wanted to regenerate the forests.

I am not necessarily saying I accept any of those things; I am just saying from the perspective of the discussion, 100 per cent of the debate around selective logging over clear cutting is a feature of this debate from one end of the western world to the other, which have had a shared history of scientific forestry over the last 100 years to 150 years. The industry was very clear, however, during this process that they could not see how that would fly and they preferred a model based on much more - this is Terry and the guys - they prefer the existing model, which FT has been working on over many years, than the previous model.

Mrs TAYLOR - I didn't think Rod was saying, necessarily, either of those, but maybe somewhere in between where you might still clear fell, but small plots, so that would solve your argument about safety, but also about not being over a big area.

Mr SCHNEIDERS - Yes, I think it is cost at some point. The argument has been really clearly put to us that it has been about cost and about how to economically and viably do it. At some stage, I certainly expect to hear a specialty timbers discussion and that has been the same argument put to us; they're on a corollary. That has been a live discussion and it's been a live discussion around the country for a long time.

Mr HENRY - In conclusion, it is a very good question and different individual scientists or experts will have a view. I am very respectful of that. I think the one thing that is important about the independent verification process, is that it was a group and they had to test each other a little bit and take it away from the environment. So in Professor Bergman's work with Forestry Tasmania, I've heard both Forestry Tasmania and Professor Bergman say that they probably got a better understanding of things by working together. So you might get a particular view from a Professor Bergman or a particular view from Forestry Tasmania but by having to work together, they got a better view.

The other point is just this. Is this agreement the perfect one? It is not. Am I sitting in front of you saying that this is 100 per cent of what the environmental community would have liked to have achieved? I am not. It may be 70 or 80 per cent. Is this 100 per cent of what the industry would have like to have achieved? It is not; it is probably 70 or 80 per cent. But do you know what? I am confident of this: it is the very best that can be done with the available resource and with the circumstances we find ourselves in. I can report to you, for instance, from the board and the council of ACF, that we think it is better to do an agreement that is 80 per cent right than nothing at all. That is not just from an environment point of view because we care about jobs land people's lives as well and solutions have to embrace them all.

Mr WILKINSON - Jobs and people's lives concern me probably more than anything. One thing that I noted you were talking about is the new markets. Do you agree that the existing markets also should be investigated and everything should be done to ensure that they remain? That is first question.

Mr HENRY - Thank you very much for the question. I do not was to sit here and pretend I am an expert on markets or the industry. I am not. You will have better witnesses to ask

that question of. I can give you a view. I would not have spent ACF's money on going to Japan if I did not feel a responsibility to be talking of existing markets. I did that based on the advice of industry. They said to us, 'We need you to talk to existing markets. We need you to do it now. Will you do it? We are firmly committed to all outcomes from this agreement.'

Mr WILKINSON - You did that, no doubt, to ensure that the existing markets were going to remain.

Mr HENRY - Correct, and to speak to the importance of the agreement.

Mr SCHNEIDERS - In part, but part of what Ta Ann has been very clear with us about - and, I am sure, with you guys - is -

Mr WILKINSON - I am not just talking about Ta Ann.

Mr SCHNEIDERS - No, but in answer to your question because you are asking a particular question so you need a range of answers. Ta Ann was not just saying, 'Let's freeze in time the existing industry and the existing markets' because they know what hard yards it is. They have just gone through a live-fire exercise for the last couple of years of the vulnerability they are feeling in the marketplace. As you know, their proposition isn't just about keeping existing markets or producing the existing products; their proposition, which I think is the one that we particularly back, is a long-term investment in Tasmania providing a wide range of products from a regrowth industry which has the highest levels of environmental sustainability because that is what is going to keep them in the international marketplace.

In answer to your question, sure, but because the industry has got a future, you don't want to be looking back to 1985 or 2001 or 2002 to look where the future is. A big chunk of the future undoubtedly will be there. High quality saw logs will undoubtedly be there. We hope the peelers are going to be there into the long term. We also hope that the other things that Ta Ann has put on the table to you and others will be there. I am also hoping, as I said previously, that now that we have finally got a regulatory framework in place that stops the Australian market being flooded with tropical rainforest timbers, we are going to have a whole range of new markets.

Mr WILKINSON - That is a concern with the speciality timbers, as you probably know, and I know you touched on it beforehand. The Wooden Boat Festival is a typical example of, if I might, the maritime history that Tasmania has. We are doing well. There are 2 000 jobs in the speciality timber area. There are 8 000 hobby jobs in it, so it is an industry within an industry. You have got boat-builders who came to us last week and said they are building a boat for \$800 000 for a client in Hong Kong. The real concern is that they are not going to be able to source that wood to be able to continue that industry which is a good industry; it's a present industry, it's an industry into the future as well and I would have thought it is an industry that the environmentalists would support.

I want to get your comment to this and I know there are people - extremists - on all sides of everything but I was down at the Wooden Boat Festival for a couple of days and a person came up to one of the contributors and said, 'You shouldn't be getting your wood from Tasmania to build these boats', criticised the person for doing that, and said, 'You

blokes are going to be collateral damage'. That concerned the person and it concerns me greatly because we have an industry, we have an industry which is a viable industry, a good industry, a burgeoning industry and yet we get those types of comments.

I would hope that is not the outcome that is predicated as a result of this agreement. I know the specialty timbers area is an area which is delicate and they have looked at, but every piece of evidence we have had before us in relation to people who are involved says that under this agreement there is not going to be the resource to be able to continue.

Mr SCHNEIDERS - You are right, the specialty timbers have been an essential part of the deliberations you guys have to go through but also to the previous two years of the discussions inside the negotiations.

No-one from the environment community wants to see people - the whole point of coming to this agreement is based on the idea that people are going to have jobs, they are going to have a future. As we systematically went through the negotiations and looked at each component of the industry and sought the advice from, firstly, Forestry Tasmania, and then from the independent foresters, we collectively - as in the negotiators plus the people who were sitting around with us, the other reference group members who went in the 4x4 process - systematically went through each section of the industry looking at future, markets, yield, products. We looked at the plantations, we looked at the \$400 million of taxpayer funds that have been invested in plantation establishment over the last 25-odd years and we said, okay, where are the markets for this and how can the agreement help that industry and sector, particularly given the pulpmill doesn't seem likely to be on the horizon and clearly a whole bunch of plantations were put in the ground for a pulpmill.

We had a look at the plantation sector: where are the potentials there? There is a whole lot of work that comes out of the agreement around what we are going to do about resource because at this point in time, by and large, that resource does not have a market so we looked at that one. We looked at the peelers and sought the advice from Ta Ann and Forestry Tasmania around the availability of the peelers, the product requirements, the sorts of mills you need, the size, the rotation, where the markets could be.

We looked at the high-quality sawlogs and got the advice from Terry's members in particular: what are the markets, what do people need, what are the expectations, what are the quality requirements, what are the diameters needed - we did the same.

Then we looked at the special timbers. When we looked at the special timbers we got a big fat question mark from everyone involved in the industry about the sustainability and the availability of the resource. I don't challenge a single thing that you've just said about the jobs, the possibilities et cetera, but it was the one section of the industry where there was no real data. I think you have all seen that. It is difficult, it has been in the arising and now we are trying to work out how to turn it from being arising from existing logging practices into an industry that can stand by itself. That's the reality: it's a subsection of the industry; previously, by and large, it has come out as an arising out of other logging practices. Now, especially with the focus on it and also the potential for it to provide jobs and it's a high-quality product, it's now standing almost by itself.

For it to stand by itself and for it to now develop and to continue to provide the wood and the jobs, it's going to need exactly what is being proposed right now, which is a couple of million bucks upfront to understand where the resource is; how do you get it economically, how do you get it in a way that's not going to compromise conservation values, how do you find where it's going to be and how do you make sure it has a good marketing strategy?

I am sure you have all seen the previous Forestry Tasmania strategy document. The strategy document is an important document but it is light on some of those critical bits of information around sustained yield, and around availability of volumes. Until we get those things the industry is going to continue to be uncertain - not because of this agreement, not just because of a conservation claim or anything else but because it's now an industry that's going to need to have its own specific strategy. Like any industry it is going to have a strategy whereby you need to know where the timber is, you need to know the quality of the timber, and you need to work out how it is economic to get it out.

That's where we are at and that's one of the reasons, as you know, when we signed the MOU and Don and Terry signed off on the MOU two weeks ago, it was the first order of business for that group and it has been the feature of our last signatories meeting with Forestry, the FFIC meeting and the next one today is about the special timbers - how are we going to get as much of that data as is humanly possible to answer as many questions as humanly possible as quickly as possible?

Ms FORREST - Are you suggesting that the signatories council you mentioned has been already established?

Mr SCHNEIDERS - Yes.

Ms FORREST - They are currently working on this now; is that what you are saying?

Mr SCHNEIDERS - Yes, 100 per cent. As I said, just cite the MOU from -

Mr WILKINSON - Yes, that has been said for about a couple of weeks now that they have been working on it.

Mr SCHNEIDERS - Yes, of course it is. They are doing the work. What we got out of it, whenever it was, 10 days ago, was the first release of funding to go and do it and that's, whatever it is, \$2 million so it's not an insubstantial amount of money. They are going to do the work.

Jane Calvert as the chair of that committee is driving us all extraordinarily hard and that's why we are meeting again today, that's why we are all down here again today, apart from wanting to obviously have the opportunity to talk to you. I think we all know how important this is. It's just, how does everyone, including industry, get the data as quickly as humanly possible to understand what the resource looks like?

The first bit of the work has been simply sitting with FT and making sure the short- to medium-term needs are met and that has been an exercise of rescheduling. One of the key things that FT has been doing in putting together a rescheduling schedule for the next couple of years is to make sure there is going to be a sufficient quantity of these

special timbers that come out of the new rescheduled logging schedule. That hopefully deals with the short-term stuff.

The longer term stuff is going to require a bunch of people, I suspect, out in the field identifying key stands with the expertise from the industry. Hard yakka, really hard work. Because, as you say, it's such a high-returning wood it's going to take quite a different approach and it's going to take a lot of foot soldiers I suspect out in the bush identifying where the stands are and identifying the quality and identifying how to get there.

Mr WILKINSON - If, let's say, there are these stands of specialty timbers in reserved areas, what are the environmentalists' views or your views - because I know you are not talking about all the environmentalists - in relation to allowing the industry to go into those reserved areas to take these logs in order to continue with their business in the market?

Mr SCHNEIDERS - First, our preference would be that the examination goes on in the areas that have been identified through the first bit of review as being areas that may be suitable which are outside the reserve area. As you know from our conversation before Christmas, there was a range of areas that were proposed for reserves that were explicitly taken out on the basis that we believed - and industry believed at the time but now you've got alternative advice - and industry believe and FT believe had substantial areas of special timbers.

That was the first job - to create a special craft zone and make that the subject of the intensive investigation that was outlined in the agreement. In the first instance that would be, in terms of trying to find the rational way forward, the first job for the signatories and the government in this instance was to identify short-term available resource to make sure that there is going to be resource available in the next two to three years. That was the first job and that has been the whole focus of the rescheduling exercise.

The second job was intensive investigation of those proposed special timber zones which involved a number of areas that we had previously proposed to be protected be taken out of protection, that is, not be put up in the claim. That process then would be to look there first, see if there is sufficient available timber and then you get to that last stage - where are we going to be in a year's or two years' time or three years' time?

If there isn't sufficient timber, if it is going to be economic - because the review is not just about access to resource; it's about whether you can make a buck out of it, can you actually derive a profit out of it - so the second stage is about the issue of: is it actually ecologically sustainable to log those forests? Then you have to make a determination.

Where you have committed all the way through that we are going to work through the council, through the process, to try to deliver on every feature of the agreement, including the needs of all the various bits of the industry - but I'm not going to sit here today and say until the review is done, until the economic assessment is done and until there is a proper and detailed industry development plan in place, I can't answer the question you want me to answer because to me it's still a hypothetical.

I happen to believe, on the best of the information available to me, that the substantial areas that were excised before Christmas are going to have a lot of rainforest species. If they don't, that is going to be an issue that is going to have to be tackled by the durability reports. That is the whole point of the durability reports. Whatever the council ends up being called, if we get through the first stage of having the legislation, the next version of the signatories council is up and running, and if we have a problem still in three or four years' time, that is going to be the test of our quality because we've said we want to operate by agreement and consensus. If there is still a real problem, that is going to be a real problem that's put on our table and we're going to have to make a recommendation to all of you as parliamentarians.

That is as good an answer as I can give. I can understand from the past, the sense that the Greens or the industry will cut and run at the first blush - people will get what they want and cut and run - but the commitment we have made to the industry and the industry has made back to us is we won't, and we will be here in three years' time. If there is a real problem, we're going to have to fix it, and we know that.

Mr WILKINSON - I hear what you say, and there has to be a lot of work. Mike Peterson is probably one of the most expert in the area because he has been dealing with it now for more than 20 years. If it gets to the stage where you say that new areas may need to be conserved, because of whatever the value is - hopefully it will be high conservation value - or there may be areas that have to come back into production due to the importance of, say, speciality timbers, what are your views in relation to some type of clause to allow there to be a proper investigation and a further area of land reserved, or, alternatively, part of the future reserved areas once again brought into production? You are saying there's going to be all this new information and therefore, if that's the case, there may have to be some tweaking in relation to the reserved areas.

Mr HENRY - I am very respectful - you have all those powers. The lower House and upper House have all these powers to execute whatever, over time. I think we can report to you, on the best available advice from Forestry Tasmania and others, about what's in behind this agreement as it sits. There are some areas that require additional work and specialty timber is one that you correctly identified. The agreement also has in it very strong requests of the federal government, they have met or indicated they will meet, to provide some of the funding needed. In this case, for speciality timber, it is funding to Forestry Tasmania to enable it to do the homework needed.

I can report to you that this is probably the most well-informed and exhaustive process ACF's been involved in, I think in our history. Having said that, we could all do our best endeavours today, and it may not be perfect - I think you've heard Lyndon echo my observation of the signatories as a whole, and there is goodwill there, to make this work. We believe it's durable and the durability report is there to enable you to test that. You have all the powers you need to do whatever adjustments you need over the next 3, 5, 10, 20, 30 years, to fine tune and make this work, I would hope.

Mr WILKINSON - Depending on what classification they are - that can make it more difficult, as you know.

Mr SCHNEIDERS - If the question is around the proposed World Heritage extension, and that is where you are going -

Mr WILKINSON - No.

Mr HENRY - I will report a different example, if I may. You are right, there is very important decision making in this - saying a particular area will be locked in for production forests and a particular area will be locked in for reserves. It's a crucial part of the agreement making. I want to give you an example from Cape York Peninsula where we're involved in an exercise - it's not as well informed or detailed as this - but it involves the commonwealth and state government and involves local landowners - both public and private lands. There has been very good work done on this case over 20 years - and Lyndon and I are both involved in this - where our two organisations supported the gazettal of part of a national park to provide tourism development opportunities for the traditional owners. That is a step that is never taken lightly, as I'm sure any change in a production forest area wouldn't be taken lightly, but it was in a good faith process with people working for solutions. The different stakeholders supported it, and the Queensland government, which doesn't have an upper House - I respectfully note - ran due process through that matter, with good will.

Mr SCHNEIDERS - That is the importance of the durability report, and that is why the industry has been so keen on it, and that is why we're so keen on it. There has been some sort of perception that the durability report is something to keep an eye on the greenies. I take a different view. I think the durability report is about making sure the agreement works because, in my world, we live in a dynamic external environment. That is how I look at the world, like the world is constantly changing. The issues that you are concerned about I understand, and there are a whole lot of other issues I'm interested in in terms of what is going to happen with the industry. You have heard me talk about some of that today.

I just happen to think if you can get to the point where you have a regrowth native forest industry that is not contested, and that has the accreditation, then the world is the oyster for the industry. That is my view because, as I said, as the head of the Wilderness Society I would much prefer us to be using regrowth native forests than using tropical timbers. Anyone who goes to a Bunnings store or a Mitre 10 knows that it is either pine, or something that an orangutan lived on at some point in the recent past. I don't think that is a good outcome.

I would like to see a real and vibrant and viable regrowth native forest timber industry in this state providing a range of products, particularly for the domestic market, because domestic markets are not as volatile, as you know, as international markets.

One thing Australians like doing is building and renovating. I spent two years of my life renovating and I know all about it. These are safe markets.

Mr WILKINSON - I am renovating now. I had to get the timber from Victoria.

Mr SCHNEIDERS - Well, you know, that is why you need this agreement.

Mr WILKINSON - Truly.

Mr SCHNEIDERS - That is why you need this agreement, 100 per cent.

CHAIR - I think we need to move. Greg had another supplementary, but I will forego a number of other questions that I had and go to you, Greg, for a substantive new area.

Mr HALL - Yes, we seem to be chopping and changing a bit. If I could just go back, Don, to my original question with regard to statements you made. I do hope that it is changed, because I find that quite misleading. For the credibility of your organisation, I think that needs to be changed. I was just back on your website again and you say that the new reserves will act as valuable assets for the state's nature-based tourism industry. There are a couple of statements there, and that is the first one.

That is something we have heard in Tasmania for many decades. Every time we lock up some forests, there will be an explosion in eco tourism activities. I put it to you that hasn't happened - that hasn't occurred and, anecdotally, there were less than 100 people, for example, who went down the Franklin last year. As I said round this table, like some others I am an avid bushwalker. I look at the Great Western Tiers and I can report to you, using your words, that this latest listing of WHA has upset a tremendous number of people, because of their attachments to those areas, and the fact that there are already reserves in there and it is multiuse. I am wondering how that is going to create all these extra jobs in ecotourism, by the creation of these reserves? I find that very difficult in my own mind to rationalise?

Mr HENRY - Thank you very much for the question and apologies on the inadequacies on the website. Let me put a personal view to you, if I may, based on experience. The major economic and jobs benefit out of this agreement is for the timber industry and timber jobs and flow on and that is the biggest economic benefit. My observation is that nature-based or bush-based recreation and tourism can provide significant benefits. I totally take your advice; I know there are swings and roundabouts with that. I am much more familiar with the history of the Great Barrier Reef. It is a very big generator of jobs and income but it has taken 30 years of good management and smart promotion. I am not an expert here so I can't give you a really informed comment apart from saying people have a strong appreciation of nature in Australia and worldwide. Something in the order of half of the inbound tourists list Australia's nature as part of the reason they come.

How Tasmania manages and promotes these assets and capitalises on that opportunity, and it will be over time, I would hope there is investment and effort in that. There are success stories around Australia but they do take time and I would acknowledge that.

Mr SCHNEIDERS - There is also the promise of peace, isn't there. I would have thought that tourism would have been one of the most obvious pieces of collateral damage out of this war that has waged for so long because on the one hand you want to be selling these extraordinary natural assets and the opportunities and the adventures that come with these extraordinary natural and cultural assets.

That is one of the selling points, the clean green business - and I can see you shaking your head. I would have thought that is one of the advantages that Tasmania has developed and if at the same time the compelling national narrative is around the contested claims about whether Tasmania is managing its natural environment sustainably and about the same time one of the markets you may well be wanting to attract is precisely the people who would not be in love with an old growth forest or a big

fat cliff along the middle of it then, seriously, you want to be able to promote a clean, green Tasmania without an intense conflict around the forest operations that are gateways to all of those places.

Mr HALL - But haven't we already got that? That is what we have been promoting for the last few decades.

Mr SCHNEIDERS - That is what I am saying to you.

Mr HALL - Hang on, you are not listening. What I am saying to you is we have had all that area locked up for so long we have this additional bit here and what difference is that going to make? A lot of that has been managed well and that is why the Great Western Tiers is in as good a state as it is because it has been managed so well for so long.

Mr SCHNEIDERS - What I am saying to you is that I understand that. What I am saying to you is there has been a national debate around the management of Tasmania's forests for 30 years and so a whole bunch of people who you would think might want to come and visit these incredible assets -

Mr HALL - Are you saying they are not coming -

Mr SCHNEIDERS - Totally, and I am saying there is a bunch of reasons for that including the high dollar and the fact that you can go to Bali and it is cheaper than going to Tasmania, which is 100 per cent right and you know that as well, and that is a reality for the Australian tourism industry from one end of the continent to another. You can thank the mining boom for that one - another industry gets eaten - but I am also saying to you an atmosphere in which Tasmania is not synonymous we have entrenched conflict about the use of its natural environment. It would be a good atmosphere to create an investment climate; that is all I am saying.

The Wilderness Society would look at tourism developments like the ones that FT has been proposing and done over the last several years. My predecessors in these roles, they did not look at those industries as being about tourism, they saw it as FT trying to find a way to green wash itself. That is how they saw those developments and they responded accordingly and they had a very strong view that is what FT was trying to do, that FT was trying to green wash.

We are now in a new era and we are actually working with FT and talking with them and trying to work out a future for them. The discussions about infrastructure, in reserves, around tourism opportunities, all the things that have bedevilled the state don't have the same layer of emotion and passion that they have had for the last 10 to 20 years because they won't get caught up in the forest war. There will still be debates and that will be fine but it is different. You know this better than I do. No one has had the passion and the bitterness of the debate that has happened in Tassie anywhere in the country for such a sustained period. That is the only observation I can bring from the mainland is that a period without that will make a huge difference to the state. Whether it is in the future direction of the timber industry or whether it is going to be in allied industries like tourism.

Mr HALL - Mr Chair, I do not want to get bogged down in a debate on this. We have a difference of opinion and that is fine.

The second point I wanted to raise, Don, on your website was the potential to generate millions of dollars for the state's economy under the national price for carbon. We have had evidence as recently as last week that indeed if that area of 570 000 hectares, or whatever, is shut up in national park or world heritage, and there is to be no future timber harvesting and no carbon credits to be gained. Would you like to comment on that please?

Mr HENRY - I wish our members were as attentive to our website as you are. I thank you for that attentiveness. I will make sure the membership form is in the mail.

Laughter.

Mr HENRY - Thank you very much for your question. Once again it probably states a little boldly because a number of the policy issues are not settled at the federal and international level that gives absolute clarity. Prima facie there is a lot of value in that carbon but it does depend on policy settings that a federal government or governments will undertake and some international negotiations are ongoing. I will have another look at that as well at the same time that I put the membership form in the mail.

Mr SCHNEIDERS - We don't know. That is the thing. The whole process has been bedevilled around the issue of what is better, the storage of carbon and what is going to generate carbon dollars. One of my former colleagues, Virginia Young, was totally obsessed with this issue and spent five years talking about carbon was going to save forests because methodology green plus one minus six was going to do this and it was going to be recognised by international laws. What we are relying on around the whole carbon issue is, unfortunately, as a framework being put in place internationally that looks some time away.

If any carbon measure mitigation scheme is going to be real anywhere it is not going to work on complicated rules. It is going to work on what is actually being achieved. That will come down to the core debate. As the core debate happens between AFPA [TBC] and the Wilderness Society around the role of forests in emissions. We argue that timber stores carbon for a very long time and even when timber dies and falls over it still continues to store carbon and it has a relationship then with the soil and the soil stores enormous amounts of carbon. Our argument is the natural system is the best storage for carbon being released. If the intended policy direction is not to release more carbon than necessary, and to store as much carbon as possible, that is the approach you take. The industry has a different view which says, particularly with long life timber products, once you have milled the product, a table lasts for several hundred years, then there is a long life in which the carbon is stored. That is a valid perspective as well.

But around trying to resolve whether Tassie is going to get money, whether the forests are in reserve or in a production forest it is almost impossible to work out until you get back to the core principle about why you have a scheme. The first thing they want to know, the international rules particularly around voluntary markets, is permanence. They ask have you got permanence in the way in which you are storing your carbon because that is the only way you can start to trade it. The people you are trading your

carbon with need to know that what they are paying for is going to be storing it into the long term. That is the whole essence of the market. In forests it is incredibly hard. You can't guarantee permanence. You don't know. You look at Victoria's central highlands. Not only did the forests get burnt; they were incinerated. They got all these beautiful places I used to love and left nothing there. There are not even charred stumps; there is nothing, a pile of ash where there used to be bloody forests.

So whatever challenges there are towards Tasmania realising the financial benefits from storing carbon, there are so many miles to go. Any rational scheme will judge the returns on whether it is doing the job and storing carbon. I think that will become neutral about what tenure it is in, whether it is in a national park or state forest, because the issue is going to be permanence. It is going to be about measuring the amount of carbon that is stored and working out if that is going to be economically viable to trade. Where we are now is just crazy land; we are not anywhere yet,

Mr HALL - Lyndon, you talked about the replacement of tropical hardwoods unsustainably produced but coming into this country. Have you any figures? As you know we are net importers of wood products at the moment. Do you have any figures on that at all?

Mr SCHNEIDERS - Not as yet because the regulations or laws only went through the federal parliament last time we were sitting so there is nothing there yet.

Mr HALL - If all that is stopped by the federal regulations then we will have in Tasmania and Victoria probably, the two southern states which have reduced native hardwoods, we will have enough resource to supply the Australian market.

Mr SCHNEIDERS - The argument is particularly because it is lower grade stuff. A lot of the stuff that is coming in as tropical is being used for decking in particular. You have a choice of decking - rainforest timber or pine. Pine does not last very long. So certainly the argument that was being put to us as recently as yesterday was that the native forests - maybe even the nitens, I do not know - are going to be a perfect replacement for those lower grade timbers. You already have high quality timbers being covered by the existing industry. They are not the ones going out through Bunnings or Mitre 10. They are the ones going to individual timber merchants and they are going on some big projects.

Mr HENRY - This is not our judgment. We are, once again, reporting to you what a major buyer of timber is saying to us. They vote with their wallet and we have worked hand in hand with Bunnings and others to push that legislation through the federal parliament, so we have worked with industry on that. They were saying to us that this opens up a domestic opportunity but they will make their choices whether they source domestically or from New Zealand or North America or Europe. Obviously they want certainty of supply, price is crucial, and they want to know the product is socially acceptable. They are the direct words used. I had almost exactly the same words echoed back to me by the Japanese buyers in Tokyo.

Mr HALL - So given that set of scenarios there are a few mitigating circumstances still to work through. They will buy on price -

Mr SCHNEIDERS - It is a big instrument. I did not realise until quite recently how big an instrument it was going to be. You get stuck in free trade land and all the rest of this sort of nonsense usually. I do not know exactly how the legislation works because it basically allows you to import it; you just cannot sell it in Australia. That is a cunning strategy to make sure, yes, you can import it and if you can build a nice big mountain of it and you can probably make it -

Mr HENRY - So it does not breach free trade laws.

Mr VALENTINE - Was there any discussions during the negotiations regarding the interests of the Aboriginal community in these areas and perhaps any discussion about whether or not they could be managing some of this?

Mr HENRY - Yes, absolutely. We had a subgroup of the signatories; I was not on it so I cannot record the direct conversations. We had a number of meetings with representatives and we probably did not progress it as much as we would have liked. There is a recommendation in the air urging the state government to open serious discussions. We felt there was so much we could do with the signatories but at the end of the day government needs to take responsibility.

Mr SCHNEIDERS - Mike Mansell and the Aboriginal Land Council made the approach initially I think to FIAT and FT and then to the conservation groups around entering into some sort of memorandum of understanding that would help inform the negotiations around a series of things that he and his organisation were seeking and wanted to see happen in ongoing use and management, financial opportunities around the production forests and also management of the conservation reserves and assets. That was on the table probably halfway through the negotiations.

The approach I took in responding to Mike Mansell's response was, firstly, to get a sense of the people who live here, rather than me, about who is an Aboriginal Tasmanian. It is very complex, for good reason. These are people who've had a very tough run and whose society has been completely and utterly disrupted, and in many cases destroyed, around the country. It is always pretty full on in the ways in which Aboriginal people are forced to organise themselves. There are whole lot of new rules about who is who in terms of legal recognition. It was totally and completely disrupted by the whole process of colonisation. I don't pretend to be an expert; I don't think our guys pretend to be experts. All they have said is there are a lot of people in Tasmania who have a lot of hurt and history and there are competing voices. I talked to Terry Edwards a lot about this because I think to his credit he is a strong supporter around Aboriginal land rights, and I think you guys know that. I think it's deep and real and he feels a strong sense of the need for restitution and for an opportunity to be provided and I really respect that.

The approach we tried to take was to go back to first principles. If you have messy politics based on history, and there is nothing more messy in the Australian context than Aboriginal Australia and non-Aboriginal Australia, how do you logically find a way for the right conversations to be had that deliver the right outcome? From my experience in working in Aboriginal Australia for a long time, the first point to understand and recognise is there are very few Aboriginal organisations, particularly political ones, that will not say, 'We never ceded sovereignty'. That's the whole point around the arguments

that have been made over some 30-odd years around the need for a treaty, to find some just resolution in a legal sense of the events that started in 1788 and onwards.

The first point for me and Terry was to understand, whether it's Michael Mansell or anyone else, there was always a basic principle that people have not ceded treaty and on that basis they believe they speak for the country as a competing voice against the crown. The crown is asserting a radical title over their traditional homelands; that is the general theoretical argument. Our approach was to say, we can't tell the governments what to do. What we can do is to say there are two sovereign claims to this land.

In Tasmania there doesn't seem to be a mechanism, for example, for a native title act because of the nature of the dispossession and what happened. There is no obvious remedy for a native title act to reconcile those sovereign claims, so the only way forward is to say to the Tasmanian government, which is what we are doing, and to the Parliament of Tasmania, that there is obviously unresolved conflict and business around the relationship between Aboriginal Tasmanians and the whole Tasmanian community. We are encouraging good-faith negotiations between Aboriginal representatives and representatives on behalf of the Tasmanian government to provide whatever benefits can be delivered out of the outcomes contained in this agreement.

Whether that's co-management of reserves, involvement in the timber industry, training opportunities, whatever the full gamut of opportunities are, our simple statement in this first-principles approach was, 'You need to talk and this is an opportunity to talk'. That's the best we can do. We have rightfully been criticised through this process as not being representatives of the broader community. I happen to see myself as representative of the 40 000-odd members I have, but I am not going to claim to speak for every Australian or for the Tasmanian government so that is the best we could do.

Mr VALENTINE - My question is that the ACF would not have any issue with amendments being put that actually dealt with the possibility of the aboriginal community being involved?

Mr SCHNEIDERS - If it is the will of the parliament, particularly in respect to sovereignty issues you are the manifestation of the Crown in my mind. You are a barrister, I think, from your background.

Mr VALENTINE - No.

Mr SCHNEIDERS - Sorry. Well you should ask him down there. People can get the legals correct but yes, personally, why wouldn't you?

Mr VALENTINE - The other signatories would you feel need an amendment?

Mr SCHNEIDERS - I can't speak for those guys and until I -

Mr VALENTINE - I know but the feeling you got through this whole process?

Mr SCHNEIDERS - All I can do is reflect on the fact that Terry was the driver.

Mr HENRY - There is a need to find a way forward. One of the reasons why the language in the agreement is quite broad is because the basic tenure issues are very difficult to determine under Tasmanian law. I heard you ask about joint management, which the Australian Conservation Foundation strongly supports.

Mr SCHNEIDERS - Both organisations support.

Mr HENRY - Both support but before you have joint management you have to resolve tenure issues so there is some work in this phase that we draw to your attention.

Ms FORREST - I am sure you have not had an opportunity to talk about the proposed amendment with regard to putting what was to be the protection order as a schedule in the bill and thereby under the current way it is written move the need for an initial durability report. Can you tell us your views? I know you have had more discussions about it so can you update us on that?

Mr HENRY - We actually have a detailed discussion of the signatories council this afternoon on this topic so I can't crystal ball gaze that for you. We supported the original framing and sequencing of material that came forward to you.

Ms FORREST - The protection order coming after the bill was dealt with, is that what you are saying?

Mr HENRY - Yes, we supported that. As Lyndon said we are supporters of the durability reports because there are key elements that are very important for durability for all the parties - environmental, industry and the like. I know the council wants to have a closer look at what the government was proposing and I think there have been some additional suggestions and we have not done that work yet.

Mr SCHNEIDERS - Terry has been a lively contributor to the discussions.

Ms FORREST - He made his views quite clear.

Mr SCHNEIDERS - The basic principle for us is what needs to be delivered and how do you get it. I do not know if you guys have had the Feds, did the Feds end up appearing before the select committee?

Ms FORREST - They will. They have not yet.

Mr SCHNEIDERS - The Feds made it reasonably clear that for them the protection order is a significant milestone, so they are obviously using that, if you like, from a negotiation principle to ensure that a protection order is delivered at some point so obviously the shared interest for Don, myself and the other Greenies – with Terry and Jane and Hans and the full crew - is get the money flowing as quickly as possible because the money is largely there to support the industry.

Ms FORREST - Some of this money is now flowing on the back of the world heritage nomination?

Mr SCHNEIDERS - A little bit, that is right.

Ms FORREST - Correct me if I am wrong - you would prefer to have the bill more or less in its original form but have the protection order gazetted maybe a matter of days later, after the bill was passed, because all the work has been done now.

Mr SCHNEIDERS - Yes.

Ms FORREST - The protection order is the schedule proposed by the government. The concern from our point of view, and me as a main contributor, was I wanted the detail, particularly in the north-west in the Tarkine area, as regards the mining industry. Without that information there is no way -

Mr SCHNEIDERS - That has been clarified, hasn't it?

Ms FORREST - Yes it has but not to the satisfaction of your group which is fine with me. The upshot of this is if we did not have that information there is no way I could have considered it. Now we have all that information the sticking point now is the first durability report and the amendments I proposed previously were to delay or give some process to the front end to not allow the government to gazette or table the protection order until we have had a period of time to look at it and perhaps bring a motion to the House to seek a change to it. Now we have all that information accept or reject it in its entirety is the way it has to be according to the signatories. What sort of time frames are we looking at here? I guess you need to land on a point with the government about their amendment and maybe they are going to come back with something different, I don't know?

Mr SCHNEIDERS - That is why I was trying to take the first principle approach because you are right, so much has changed since last December. I suspect the select committee wouldn't see it this way, but certainly the way I am looking at things the select committee report is almost an external first durability report. The amount of assessment, interrogation and review that you have been undertaking and will be continuing to undertake over the next period of time is significantly more than any of us was envisaging around the signatories table that what was going to be in the first durability report. The first durability report in our mind was going to be let's look at all components of the agreement that needed to be moving forward together.

That would have been from the ENGOs perspective, okay, what happened to the world heritage timelines, the nomination timelines and from the industry perspective was going to be has the working group been set up to go and been funded, has the timeline been created to go explore what we're going to do with the residues because that was one for them was particularly important. It was urgent, get the money flowing and put some pressure back on Triabunna Investments, blah, blah. We were imagining it was going to be a tick the box around critical issues that were moving both sides of the agenda together because that is the whole thing you have heard a lot about, about making sure the agenda was moving together.

Our views of what was going to be in the first durability report was significantly less detailed than the investigation you have been doing now. I would posit a view you would probably reject the idea that your report will look a hell of a lot like a comprehensive durability report about whether or not -

Ms FORREST - Something you won't complete every time you need to do a durability report.

Mr SCHNEIDERS - Maybe it sets a template, who knows?

Ms FORREST - Maybe it does.

Mr SCHNEIDERS - My main interest now is around if the legislation gets through what does the industry need in terms of when does the money start flowing for the sawmill buy-back stuff, the whole caper. That is my interest. Yes, I would like to see a protection order in place, that would be good and that would be a significant milestone, but this is why we are talking about it at the committee level today even, trying to work out how does it all work, how does it all fit together and how do you get the minimum amount of delays to get the thing going.

Ms FORREST - One of the concerns with the original bill, where the protection order will come a period of time later, was that the money wouldn't flow from the commonwealth particularly until after the protection order is at least gazetted. I am not sure whether it had to be dealt with by parliament, accepted or rejected. Because this timeline has pushed it out to a degree and the feds claim that there is an April imperative to the funding -

Mr SCHNEIDERS - They obviously have a new imperative, haven't they? They have a new imperative going into caretaker or what at the start of August? There is an imperative there, I presume, from the commonwealth's perspective.

Mr HENRY - I would like to be able to provide advice back to you after the discussion of the signatories council this arvo and any of the signatories -

Mr SCHNEIDERS - Process-wise couldn't we dob in Jane as the Chair to provide a report back around the matters that we've been discussing?

Ms FORREST - I think it is really important that we know where things are heading in that direction.

Mr HENRY - Yes, there are very delicate issues here. Your absolutely astute timing is really important here and we have all been told there are some constraints from the federal government.

Mr SCHNEIDERS - And the state, that are bigger than us.

Mr HENRY - Perhaps it would be appropriate if the Chair of the Council, Jane Coward, could report back to you on that because we are in problem-solving mode this afternoon on it.

Mr DEAN - Vanessa asked a question earlier and I caught it bits and pieces of it but there was some I didn't. Looking at the conservation values, we have had a lot of evidence given throughout this committee by scientists, professional people, foresters, et cetera, right through the process. I think almost all have said that there is a lack of science

behind this whole process. There has been a lack of science behind the areas to be reserved and as to what the areas will return by way of conservation value and so on. I think you made the comment, although I would need to look at *Hansard*, that there had been science brought into this process. Can you explain to me where, from your point of view, the science has been involved in this whole process moving forward?

Mr HENRY - Thank you for your question, and I am sorry we weren't managing to project our voices around the full room before. Once again, I am not privy to those *Hansards* but I would respectfully disagree with that proposition that may have been put to you.

Mr DEAN - Well, you would disagree with the proposition put to us by a number of people.

Mr HENRY - Yes, I would. My own observation is that the environment groups had formed their views on environment values based on many scientific reports over the years but at the end of the day that all had to go to an independent verification group that had some of Australia's best scientists on it from an environment point of view but also right through to a wood value point of view. I will just draw it to your attention. Professor Burgman from Melbourne University is recognised by Forestry Tasmania and the industry as absolutely world class in calculating sustainable timber volumes, for example. Peter Hitchcock, who did quite a bit of the World Heritage assessment, is viewed as world class by the World Heritage Committee. So I can just as ACF -

Mr SCHNEIDERS - And a great forester as well.

Mr HENRY - Yes, with a forester background.

Mr DEAN - Sorry, I might interrupt you. Are you saying that those reports are the basis for all of the 295 areas that are currently earmarked and identified for reserve areas, and are all covered within those reports? The 295 listed identified areas?

Mr HENRY - Yes, if we are talking about the same areas. The full ENGO claim went in through those scientists and was carefully assessed, as did the full industry claim on volumes and the work on forests by Forestry Tasmania.

Mr DEAN - The reason I ask that question is because there has been evidence given that in the original amount of land to be reserved and so on there had been included in that commonwealth lands et cetera as the initial area of 400 000 hectares of property to be reserved. When the error was identified there was then this move to grab extra land to replace the land that had been incorrectly put in as a part of that reserved area. That is why I asked whether or not it is all covered.

Mr HENRY - I can report to you it is all covered thoroughly.

Mr SCHNEIDERS - This is also going back to what I was saying earlier. Tasmanian forests have been well assessed and investigated. Every time there is a conflict the first thing any government worth their salt does is try to mediate by going out and assessing. So some of those areas I think you are alluding to are areas that basically did not have production forest value. I think that is what you are alluding to. They were not areas that were of interest to FT in terms of having timber values. They have conservation values.

Mr DEAN - What do you mean the original areas? The commonwealth lands?

Mr SCHNEIDERS - Yes.

Mr DEAN - I'd say they did have timber reserves, apart from the areas that -

Mr SCHNEIDERS - One of the reasons they were being put forward was that FT basically sent them a map and said, 'These are areas which have a substantial range of conservation values' - that they had documented and had been documented through the RFA and the previous processes - 'that do not have timber values and will not have an impact on wood volume.'. That is one of the reasons those sorts of areas got added, on the basis that they have extraordinary conservation values, but they weren't part of the initial investigation if you go back to the statement of principles which is around production forest, and that is what we were trying to resolve, the conflict over the production forest.

Mr DEAN - That is right.

Mr SCHNEIDERS - Yes.

Mr WILKINSON - If I might on that, it has been agreed, it would seem by both parties, that there were some areas that were pretty forests which were no use really to anybody and therefore in order to get it up to a certain figure for the environmentalists they were put into the mix.

Mr SCHNEIDERS - Yes, totally, but what's your issue? You're looking at it as a battle, you're just continuing to look at this headspace as a battle. From my perspective, it's around -

Mr WILKINSON - That's your view but it's not mine.

Mr DEAN - You see, you keep pushing that position and our position has been very clear on this. There has been that grab for some land that doesn't fit into the area of the strong conservation value areas. There is not a forest or a piece of land in Tasmania that wouldn't fit those 10 criteria in some way or another.

Mr SCHNEIDERS - We don't agree with that at all.

Mr DEAN - Well, you've got a quoll or a - it's just a nonsense.

Mr SCHNEIDERS - No, that's why we didn't start with 1.5 million hectares of assessment, because that's what Forestry Tasmania has already done with the RFA processes and the assessment reports of 1995 and 1996. They are already looked at. We accepted there were extensive areas that did not have high conservation value and should be available for timber production - at the outset 1 million hectares of forest. That was the initial assessment. The green groups, based on analysis largely of existing government reports and policies, believed that there was an extensive area of high-conservation-value forest that needed to be assessed by independent experts. If you think about it and look at the RFA, for example, the RFA said its objectives were around protecting 60 per cent of old growth, 90 per cent of wilderness and a cross-section of rare and threatened species.

One of the reasons you got the protection regimes that we all collectively got back in the 1990s was a government decision that 40 per cent of the existing old growth was going to continue to be harvested, and that was a policy setting by government. It was not one the environment groups accepted. We had a view that said old-growth forest, by and large, should not be harvested, and that is what the conflict has been about for the last 15 years. Government made a policy decision based on what industry believed they needed at the time, which was ongoing access to old growth, that 40 per cent of the identified old growth on public forests in Tasmania was going to be harvested, and that didn't fly as a policy outcome.

We are not reinventing anything. We are not walking around magically putting conservation values on forests, as you seem to be implying. We're maintaining the position we've had for a very long time that there are some forests that should not be harvested and the big move the conservation movement has made in this process is recognising there are many areas of native forest that can be harvested and that we all support being harvested. That's the big move.

Mr DEAN - I will ask one further question from that and invite a yes or no answer. You are saying that the 295 areas identified as areas that should be reserved all have a higher conservation value than any of the areas set aside for timber production?

Mr SCHNEIDERS - It depends on the values that you want protected. If you are trying to protect the habitat of an animal - sorry if you don't like these answers - you can't go coupe by coupe or lot by lot because the animals didn't create the loss. Some geographer created the loss. So, no, I can't give you that answer. I can sit here and say to you creature *x* travels through a large area of forest where it needs a range of characteristics to sustain itself and that it will travel through 295 lots. I can give you that, but your question makes no sense from an environmental perspective. It may make sense from a public policy perspective.

Mr DEAN - With respect, your answer does not make a lot of sense to me either. I have one further question on a different point. Lyndon raised a position when the member for Nelson raised about sourcing his timber from Victoria and I have just done the same. I have had to source all the timber I needed for my renovations from Indonesia, in fact, but anyway, you said that you need this agreement to fix this up.

Mr SCHNEIDERS - Yes.

Mr DEAN - How will this agreement provide for a greater amount of Tasmanian hardwood timbers being available in this state so that we won't have to source our timber from Victoria? We are told we currently have 28 timber mills in this state and a number will close and we will finish up with 15 or 16, so how will this agreement fix that position?

Mr HENRY - I am not sitting in front of you as a market expert and your question is really about markets. I can give you a view based on listening very carefully to the industry, being aware of some major investors in Australia, major buyers of timber, and my own experience of the US and Europe and the global forest business.

What Lyndon and I heard yesterday from one of the major buyers of Australian timber was that, depending on the federal regulations, within one, two or three years one won't

be able to buy timber imported from Indonesia that has questionable origin, that could be illegal or can't be certified to be legal. It was reported to us - and this is from a company that currently sources less than 1 per cent of its timber from Tasmania and is one of the major suppliers of the very products you are talking about, decking and the like - that company said to us there will be a bigger market opportunity for Australian products as long as they meet price, certainty of supply and are socially acceptable. This agreement is defining a production area, Forestry Tasmania has done a lot of work, independently reviewed by Professor Burgman and the best judgment of the signatories - and the most important here is industry - is there is a certainty of supply behind those figures.

The agreement also gives social acceptability to the supply. If you listen carefully to a major buyer like that, I would say the agreement gives a real opportunity of growing markets. We hear markets saying they want this; this is exactly what the Japanese customers said to me a week and a half ago. They are after certainty of supply and quality, price is important, but they want social acceptability as well. It's an increasing factor in international and domestic markets. You can see that as a very important opportunity.

Mr DEAN - You referred to growing the market, we have been given evidence throughout this committee process that the market will be absolutely stretched - in fact, super tight, we are told from Forestry Tasmania and other people giving evidence - to source the amount of timber that is required right at this moment in the area that's been left for production timber. Where then is the area in this agreement for growth in the timber industry in Tasmania?

Mr SCHNEIDERS - Your previous question is: why will it be possible for the Tasmanian timber industry to be substituting imports, whether they are from the mainland or Indonesia? The first reason is the investment community; investment, which is badly needed in the industry - you know how much industry needs investment - needs constant upgrade. That's why some of the small mills are going to close and why Fred and his members have said they're forming their co-op and pulling together the research project to look at the new products they can build so that they are going to have a viable future. That's what they are seeking, the regional development money so that they can upgrade, produce new products and up-sell their mills. They are looking for the investment so that they can continue to evolve and grow and find new markets. We know, for example, one of the reasons our mate Chandler, who came here promising to save the pulpmill, didn't put money into the pulpmill was that he looked at a toxic investment climate and said, 'No, I'm not going to do it'.

In the first instance I'll give a positive to you, which is simply: how does it grow? Well, you create a secure business environment where people are going to want to invest and I thought that was something that all Tasmanian leaders wanted - a secure investment environment so that businesses can grow. That's the whole promise of peace, as you know and as we have talked about a number of times.

Your second question was about how the industry is going to be able to expand and I will put to you this: yes, it's going to be tight for the existing products and I have already said previously, Ta Ann told you, as they have told us, that they are wanting to make different products with different timber specifications so that they can continue to grow. As we have already talked about, you have a very extensive plantation estate sitting there with

apparently no obvious markets right now, for hundreds of thousands of cubic metres of timber.

Mr DEAN - Which is pulpmill timber.

Mr SCHNEIDERS - Pulp and also [Eucalyptus] globulus - you have a lot, 40 000 or 50 000 hectares of globulus with no obvious markets right now. You have to realise the return on that investment; that's a huge investment that has come from the taxpayers and we've got to work together to find products that are going to be able to be produced by those forests. If we can do that then you are going to have enormous job opportunities because you've got a mountain of wood sitting there in your forests with no markets. So you are right, it's going to be tight but that's what the industry agreed to when they went down this path. They weren't trying to lock themselves into what the industry looked like five years ago or what it looked like 10 years ago, or 20 years ago, they wanted to find a future. The future is based on best value-adding possible, secure markets and also finding a use for all this other wood and not relying on the good old days of the woodchip market coming back again.

Mr DEAN - So you would support the pulpmill here then?

CHAIR - Order.

Mr SCHNEIDERS - If it wasn't run through the same process that you guys rightfully opposed, it would certainly help.

Mr DEAN - Thank you, Chair.

Mrs TAYLOR - A different area. I was really concerned last week when I think it was one of the members of the Give It Back group, a private forester, who talked to us about having sold, last year I think, one of his lots. He was saying they are really going to the wall because of the whole Gunns pulpmill falling over, but he said that they did manage to sell one lot of timber last year, one block, to be harvested and I think it was to Ta Ann but it doesn't matter because it's the principle of the thing. He said that he did say to the agent, 'Leave the tall, fairly thin ones at this stage because I want them to grow into old growth; I want to leave those for sawlogs maybe the next 50 years'. He was fairly devastated when he came back afterwards to find that they had taken them all and he said, 'That was my future investment, the sawlogs that I was growing'.

He said the industry wants peeler logs of a certain size so they want to take those. That concerns me because if we are looking at our private forests or wherever, that size log being taken for peeler - and I'm all in favour of downstream processing for manufactured timber products and all that but there seems to be a bit of a conflict there because we do want some of the timber also in production forests to continue to grow into sawlogs. Do you have a comment on that?

Mr HENRY - It's a very good question and I can assure you it has been the subject of a lot of discussion around the signatories' table and a lot of advice from Forestry Tasmania. You might notice in the agreement it's urging a specification of a particular volume of high-quality sawlog - making sure that high-quality sawlog supply is there. It also has recommendations about peeler supply and I can report to you in the discussions behind

the scenes, and industry was most strongly involved with this, there was very fine tuning to get the balance right between high quality and peeler and too much cannibalising across them. So, it may be a question you want to ask Forestry Tasmania or the industry itself rather than us.

I'm just giving you an observation from around the table, that a lot of work went in to getting that balance right and at the end of the day, as an environment group, we obviously deferred to industry as to what they felt that final balance should be for a healthy industry that would achieve both - a good secure high quality sawlog supply and a good peeler supply. There is a huge amount of work in behind that agreement to reach that balancing.

Mr SCHNEIDERS - Terry was really clear; he constantly said what he needs for his big sawmillers is a diameter of at least 70 centimetres, if not larger, and what he needed for Ta Ann was a regular diameter about 40 centimetres. So I think the concern you are raising is a valid one because you are basically saying, 'What is going to stop Ta Ann driving the entire industry? And therefore, is there going to be a high quality sawlog industry?'. That is why I think Don is right; neither of us can answer that. All we did was go through a process during negotiations where a small group, which included Vica and Terry usually with Hans' input because of his experience in FT, would sit down with FT and they would run all these various scenarios based on volumes, on coupe availability and on area, and rely on FT coming back and saying that it could work or alternatively that it couldn't.

I can only talk about public forests. All I can talk about on that experience so far is that they are the calculations around what FT knows about what is in the bush, what the age structure is and what the logging process for harvest over a life cycle is going to look like.

Mr HENRY - Just to report initially, we did receive an extra measure of comfort, so as a non-expert we were hearing Forestry Tasmania and the industry, but then that was subject to that independent verification. So Professor Mark Burgman from Melbourne University, a forestry expert and expert at calculating volumes of different products, ran a ruler over it all and provided an independent report to all the signatories that I think gave us all a comfort that what we are being told is right - the balancing is correct there for what the industry was saying they needed.

Mrs TAYLOR - As a follow-up question, an issue has been raised about the effect of this agreement on private forests. One of the things that has been said during the time is that although it is limiting in public forest, in actual fact some of the market, if there is growth to be had, can be taken up through the private forestry, but this appeared to me to be a bit of a conflict. If the private foresters are being encouraged to sell for peelers, then even though invariably - and I am sure there are people who don't fit this pattern - but the certainly people we have heard from and the people we hear from in private forests are very responsible conservationists themselves. They are not -

Mr SCHNEIDERS - In terms of what Ta Ann had specified and been given contracted commitments for by FT previously, there were 265 000 cubic metres of peeler a year and what the agreement talks about it is significantly less than that. They were quite clear they spent - I think Greg Hickey was quite clear in some of the discussions he had - that

they spent a lot in the last couple of years because FT had confirmed that they wouldn't be able to supply the 265 000 from public forests and in fact they were going to need something like 38 000 cubic metres from private forests. They were quite clear it was one of the drivers for them being able to consider downsizing the volume because they already had to consider that. They already had to consider that because there have not been peelers available of the right quality for them for a number of years.

I think that is one of the reasons why they have been actively looking at slightly different products with slightly different needs and why they have been able to make that move from 265 000 down to where it landed. Hopefully, taking it down to that level takes the pressure off the private forests. There is a whole capacity there, which I think is partly what Greg and his guys have also been looking at around how you develop an industry that isn't driven by pulp because originally, from what I understand, a lot of it was by pulp from private forests.

Mrs TAYLOR - The plantations are there.

CHAIR - We are about done, I think. Thank you very much, gentlemen for being here. We will write to you with a copy to Jane on that matter that you indicated you would delegate Jane to answer, so if we can get that happening today for that answer. Thank you.

THE WITNESSES WITHDREW

Mr BOB ANNELLS, CHAIRMAN; **Mr BOB GORDON**, GENERAL MANAGER; AND **Mr STEVE WHITELEY**, FORESTRY TASMANIA, WERE RECALLED AND RE-EXAMINED.

CHAIR (Mr Harriss) - Welcome, gentlemen. Each of you at an earlier time has taken the oath so we don't need to go through that process again. The same attachment of privilege applies to you while appearing before the committee. Can we pick up where we left off last time? There have been some developments since you were here before the committee previously, so we would like to hear some comment from you as to some of things that have been unfolding with the special council, World Heritage nomination and the impacts on that, et cetera.

Mr ANNELLS - I will defer to Bob Gordon for any detailed comments on this. From Forestry's point of view, the nomination of the World Heritage area extension, whilst somewhat unexpected as to timing, doesn't change the stage of play for Forestry. We understand very well the pressures that exist. It doesn't change our position. These are areas that we would have expected to have either gone into reserves as a result of this process or, if this process doesn't result in reserves, in reality the areas that have gone in World Heritage we would, in any event, have gone to considerable lengths to preserve.

I know we had some logging in those areas but that was at the margin and looking at it through the prism of FSC applications, I think the practical reality is that that, together with the fact we have been provided by the state with some money for new roading and to facilitate transition in advance of the decision of the Legislative Council - taking all those things into account we would not have continued within the area that's gone to World Heritage, regardless. It may have been a slightly slower transition but effectively I don't see it as being an issue for us.

Mr GORDON- We have been aware for at least three years, since the process started, of the areas that were proposed to be removed from multiple-use state forests. The proposed World Heritage nomination was also quite well known since at least the state election before last. I think Jeff Law and Bob Brown put out a map saying where it was, so there has been a lot of work trying to avoid the most contentious areas over the last three years. I think there are eight or 12 coupes left within that area and there's a process that is being worked through to see how many of those can be rescheduled.

Mr HALL - In your submission you said your support for the agreement was conditional - and I have a few matters I want to run past you. The first one is that you are confirmed as a statutory commercial agency described in the TFA with full management responsibility for the permanent timber production zones, as has happened - yes or no?

Mr ANNELLS - No, it hasn't happened, but the process to resolve that is well advanced. My understanding is it will be addressed within government quite shortly. We've had every opportunity to put our point of view on that and we've done so, strongly, and we are awaiting the decision of government in that regard.

Mr HALL - So, the answer is that you will have a response shortly?

Mr ANNELLS - I sincerely hope so. A lot of things flow from it, from our perspective, in terms of forward planning, economic viability - a whole range of things.

Mr WILKINSON - Can I ask when that will be?

Mr ANNELLS - I do not know. We are not in control of that process. It is FOTOC (?) [11:30:24] which I can't invite in the committee.

CHAIR - Did you notice our committee?

Mr ANNELLS - Well done, Mr Chairman. It will be recommending its position quite soon, and it will go from there.

Mr HALL - The second part is that FT receives full funding for any required CSOs. Have the CSOs and their costs been identified? That has been a point of contention for some time. Have you a written guarantee that you will be fully reimbursed?

Mr ANNELLS - I give the same answer as before. It is part of the FOTOC (?) [11.31.02] process. They are reviewing the commercial, non-commercial split as recommended in the URS report and we have had the opportunity to make a submission in relation to what is a logical split. Once that decision is taken, if we have remaining CSOs, and we imagine we would, then we can articulate what the cost will be and to seek assurance that we will get that.

I have no indication that the principle of CSOs being reimbursed has not been accepted. In fact, I think it has been. The acknowledgment is who undertakes the CSO - is it Forestry, is it Parks and Wildlife, is it somebody else? There are costs there.

One of the challenges I am sure is confronting FOTOC (?) [11.32.06] is that when you try to unpick Forestry's operations and extract the non-commercial activities, you find it is very difficult to put nice neat boundaries around them. You can't surgically remove a whole range of these things. These are very integrated operations.

One of the good things that has come out of the current review process in forestry is the complexity of this, and the extent to which Forestry has undertaken these things in the past is now being brought out into the daylight much more clearly than they ever were. I think government is recognising that somebody has to pay for this. In the past it has been paid for out of the profits generated, or surpluses generated, by Forestry Tasmania - that is the fact of the matter.

Mr HALL - Yes, I think most members were pretty well aware of that, through several GBEs. That is fine, that has always been a point of contention. The next question, Bob - there is strong support for engineered wood products and, amongst other things, using wood to generate electricity. Have you received any guarantees that the government supports biomass energy?

MR ANNELLS - I can't speak to biomass, I can speak to engineered wood products. I think we have a clear indication from the minister that he understands why we are going down this path.

We have recently given him more updates on what we intend to do in that space, so guarantees, no, but a clear indication that the current board's desire to facilitate our activities in this space is understood by government and endorsed.

There is always the issue about the extent to which Forestry, by seeking to move into a space like this, is potentially running across or cutting across private enterprise. We have this in the whole debate about our involvement in downstream processing. There is a bit of a contradictory view expressed from time to time, which says, 'We do not want you to be in this space competing with private enterprise, but we are damn glad you are at the moment because no-one else can do it'. I think we are sitting in a pretty good space in relation to that activity and that issue.

Mr HALL - Thanks for that answer. I will keep it on the little list I have, because, as you said in your submission, a lot of these things are related to the agreement. The agreement is 'conditional on the following being achieved'. So, the next one was improved infrastructure and access for the export of wood products from ports in the south and the north-west. The question is: How has infrastructure and access been improved? Of course we still have the Triabunna question, or have Tasports and minister O'Byrne committed to sending woodchips out of Hobart?

Mr ANNELLS - No, they haven't. I think, from our perspective, the world has moved on. We are of the view - and Bob has just returned from China - that the solution to the residue issues out of the south can be dealt with far more readily by increasing our log exports from the south. I think we have a solution, technically, as to how to do that, in the offering. There are still some loose ends. I met with minister O'Byrne this morning on this issue and I think we are well down the path.

The second issue of course is the ability. We have been provided with some funding to subsidise the transport costs of these logs north. No-one suggests that is a long-term option but it will certainly be in place for a couple of years if we cannot substitute with increased log exports out of Hobart. I think we can. The north-west coast - we certainly have a plan for the north-west coast which will solve that issue as well.

Mr GORDON - Sorry, just to add to that one. One of the other issues is the sawmill residue chips, which are a major problem for the sawmillers. That is covered in the assistance that the government is proposing, to transport chips from the south and the north-west to Bell Bay.

Mrs TAYLOR - But they are not selling them from Bell Bay.

Mr GORDON - [inaudible 11.37.10] a month for the last six months. There is no shortage of markets for chips. The problem is the transport costs of getting them there.

CHAIR - While we are on that, if I may, rather than come back to it. Is that a continuation of the state government subsidy, because that was rolled out some time ago for a finite period, I understood?

Mr GORDON - About three years ago, I think it was, Steve - that temporary subsidy for carting stuff.

Mr WHITELEY - That was for a few months. That was really when it hit contractors initially. It was a matter of restructuring contractors and how they worked so there was a little interim arrangement that went for a few months at that stage, and beyond that we have needed to change the schedule and have contractors operating different areas, and those sorts of things. That lapsed some time ago.

CHAIR - What is the proposal, then, in the subsidies which both of you have just spoken about? When does that kick in, and is it state money or is it contingent upon the passage of this legislation?

Mr GORDON - For the transport?

CHAIR - Yes.

Mr GORDON - I don't think the money has kicked in yet, but I think -

Mr WHITELEY - There is money kicked in at present but the present arrangement, until further confirmation, is that it may lapse if the bill does not pass. The government has also indicated they understand that there needs to be a solution over one or two years, and so we are working through some detail on putting that in place.

CHAIR - So I take it then, Steve, that it is state money.

Mr WHITELEY - Yes.

CHAIR - Then the contention by the state, from what you have just said, is that if the bill doesn't pass then that subsidy is in jeopardy?

Mr WHITELEY - That is the current position. There was that initial response, so we are currently able to move residues. Beyond that time there is another phase that the government is now considering, over a year or two, to make the position more sustainable - consistent with the MOU put forward by the signatories, that a transition period is required.

CHAIR - Thank you. I want to somehow understand, if we can, what the criteria is for qualifying for subsidies. I am well aware of plenty of small sawmills that are still overstocked with residue and there is no movement from their sawmills so who makes the decision as to who gets what subsidy or is it as a result of the market penetration which is generated out of the export from the north and then the people handling those exports decide from whom they take their chips?

Mr WHITELEY - Perhaps to clarify the answer. At present the arrangement solely relates to logs from the south. It does not deal with other products but it has been recognised clearly that there is a gap in the current arrangement, which does not pick up the north-west and it does not pick up processor residue so the government is currently working on a longer-term position to deal with those issues.

CHAIR - So there is no current subsidy for transport of chip material to the north for residues, which are sitting in slivers bound up in sawmills, and transporting them to the north for chipping in the north, there is no subsidy for that?

Mr WHITELEY - Not for processing residues. There is only a mechanism for harvest residue logs from a harvesting but it has been recognised and the government is currently working with us on how to implement a program for the processing residues.

CHAIR - So when you say logs I am presuming it is the residue part of the tree that is currently just left on the forest floor because there is no chip market for it? Then I go to the point in association with that. I know of at least one private saw miller who has a chipping facility but he is not able to chip his residues, I presume, and throw them on a truck at a subsidised rate?

Mr WHITELEY - That is correct at present and that is the bit that needs to be fixed. The government is currently discussing with us how to get that mechanism in place.

Mr GORDON - There are three or four mills down south that are in the same position. It was five but one burnt down.

Mr ANNELLS - I think it needs to be recognised, Chair, that what the state government has done in the interim is to provide funds that were provided really on the same basis as the signatories had assumed in their agreement. There was an amount of \$15 million to facilitate a range of activities, including re-roading, by us and transport subsidies. That was not really well defined as to what that meant. The state government stepped in and said we understand you need to get on with re-roading and moving some of these residues. The implication was on the same basis as was envisaged in the agreement with the signatories. We have come in and said there is an issue here that is not being adequately addressed and it is really the sawmill residues and we are getting clearance and clarification that this subsidy can apply to that.

Also there are some technical issues about how we actually transport it. We are looking at using TasRail to transport some of this material -

Mr GORDON - Some of the logs.

Mr ANNELLS - Some of the logs. If chips were put into containers then TasRail could move some of that as well. So this is evolving but the quorum you are identifying is one that we are intimately aware of and working very hard to try to resolve.

CHAIR - Ivan, on the same matter?

Mr DEAN - Yes, it was on the costs. I think I heard you rightly when you said there is no shortage of woodchip sales if the cost of transport and all of those other things around it -

Mr GORDON - With the Australian dollar high there is a market for hardwood chips and traditionally the average transport costs of getting the logs or the chips to market was about a third of the cost of material. With Burnie being shut over the last 12 months effectively the extra cost of carting wood from the north-west to Bell Bay is close to \$20 a tonne and from the south closer to \$40. So that is a very large component of the value of the chips at mill door. It is a bit like if Hobart Airport was shut because of concern about greenhouse emissions from aeroplanes the question is would people fly into Launceston then spend an extra two hours and a couple of hundred dollars driving to

Hobart. Well, the market tells you the answer to that and that is the problem we have. It is the cost of the extra transport distance that is the problem for the entire market.

Mr DEAN - Is that the market into China, is it?

Mr GORDON - Both China and Japan, so there are chips going from Bell Bay to both China and Japan at the moment. Remembering that one of those mills was shut for the last 18 months effectively, as well, so that is the other thing we have.

Mr DEAN - Thanks very much.

Mr HALL - Another condition, Bob and Steve, was that you were able to secure FSC and the committee have heard from several players that there are no guarantees that you will be successful in that respect. In fact it is likely, it is maintained by some people, that you will be unsuccessful. The question is if that is the case, what then?

Mr ANNELLS - FSC is a complicated question. I think the intent behind what we put in our submission is the intent behind the signatories, which is there are no guarantees about FSC. It is an independent process and we have to go through it. I have been told informally that Forestry Tasmania's science and its forest management practices are clearly way in excess of the standard that would be required and we would have no trouble passing on those criteria. The issues will be largely around consultation with stakeholders and some lingering issues over high conservation values in the remaining state. It is why the board were happy to endorse management's recommendation that the FSC application actually applied to the full 1.5 million of state forest, even though we knew under this process, should it go ahead, half of million of the 1.5 million would go as reserves.

The important thing from our point of view is that FSC take the holistic view of the forest estate, so that is what we have done we have sought that approval. There is no guarantee. It is a process I saw in the minutes from your committee, Chair, that the view is being expressed it could be a 12 month to two-year process. That clearly shocked a number of people, but I had been walked through that by the Chairman and I understand that to rush it increases the risk that we would be unsuccessful. We are looking at the interim steps that would satisfy the marketplace and we need to carefully work through those because there are some interim steps.

I said to you before and I would reiterate it, having ENGO support does not guarantee you FSC, but not having it absolutely guarantees that you won't get it. It is a difficult position. We already have extensive certification. We have judged that market demand suggests that dual certification would be the best thing for Tasmania and we will leave no stone or dollar unturned to actually get there and it is quite an expensive process. It is extremely science-based and I think we have a very good chance.

Ms FORREST - On that point, Chair, could I ask a question? Bob, you said you are expecting it to be a two year to five year process.

Mr ANNELLS - No, one year to two year process.

Ms FORREST - Sorry, okay. As you said one of the major factors is the support of the environment groups, the major groups anyway, and they will obviously need to remain well engaged through that period otherwise it won't happen anyway, so do you see it as part of the durability?

Mr ANNELLS - It is part of the durability, absolutely, and there is an element of trust in this as there is in so much of this group. It is sometimes hard to see you keep a balance of we have some control here versus you have control there. All I can say is to this point there is shown both a willingness from the ENGO side of the signatories to accept that there are deficiencies in what has been negotiated and a real willingness to negotiate outcomes. Specialty timbers is clearly one of them, I am sure we will talk about that today, but they understand that there is a problem with this and it has to be fixed. I think FSC is something that if Don Henry tells me they will support then I believe him.

Mr WILKINSON - Bob, I hear what you say in relation to having green support around FSC and not having it makes it extremely difficult if not impossible if the agreement's not passed, I think you went on to say. What happens if, say, for my question's sake, the agreement doesn't pass but Forestry Tasmania says it will only be taking wood from those areas defined in the agreement - and Forestry Tasmania can do that? Surely that would mean you would still be able to get FSC certification?

Mr ANNELLS - The reality is that the way FSC operates and the make-up of the body, one-third of FSC as an organisation is made up by the ENGOs, and my understanding is that they need to provide assistance during the process and absolute sign-off. I am not intimately involved in this of course but I have been spending a lot of time in the last few months trying to get my head around it and I don't believe that simply changing our scheduling to only take wood from the 1 million hectares that would have been the production forest should the agreement be passed will cut it. The ENGOs do not have to give a reason why they don't support it and I can only go on what we've been told repeatedly, which is that -

Mr WILKINSON - In other words, no science, it's just the fact that unless you sign this agreement - the sword of Damocles is over your head - you don't get the FSC, even though Forestry Tasmania who's in charge of the wood supply says, 'We're only going to allow wood to be cut from those areas'?

Mr ANNELLS - Yes. I have to be a bit careful not to stray too far into this because at the end of the day we are an applicant in this process. FSC has very strong rules in place in Australia. There are real issues in relation to the lack of an Australian standard under FSC that have to be resolved. We would see ourselves trying to be part of assisting to establish those standards. That is part of the reason it takes one or two years to get up and I suspect that the outcome from your perspective, which may appear logical, and I am not saying it is illogical but I'm just saying I suspect you would not be able to keep the ENGOs together because they would see this as one of their principal levers in a sense as to whether this agreement gets up and they've got a long history of taking a very long view on these things. I can only give you the advice I have which is that it won't happen.

Mr HALL - The last question I have is with regard to your support being conditional that you will be able to access, by building roads or using existing roads through reserves, coupes that have been cut off by the new areas designated for protection.

Mr ANNELLS - This goes to a question that has been exercising our minds and certainly we have had some discussions with the signatories. There is a lot of work to be done to get a sensible cost-efficient management regime for existing reserves, new reserves under this agreement and our forestry operations. We are worried about bottlenecks and land-locking areas et cetera. The signatories have acknowledged these are real issues and we are relying upon the signatories committee and this will go to the question, I believe, of how well that committee operates. It is designed in part to be the forum at which we can negotiate these issues. It doesn't exist at this point, or at least it hasn't existed long enough for us to go to it, but certainly we have indications from the signatories that they understand this is a practical issue for us.

I would have to raise one issue on the premise of your questions. What I believe we said was that the board endorses this agreement with the following caveats. We are not in a position to impose conditions, we are an agency of government. 'Caveat' is a word that I didn't see and still don't see as a problem particularly, but it would be dishonest of us to come before you and say we don't have reservations and these are the reservations we have. These are things we see as absolutely important. While you've been doing your work, we've been doing our stuff as well and seriously addressing each of these issues. I can't sit here and say any of them has been finalised but, equally, not one of them do I have to worry about right at the moment. We may not get them all but we're heading in the right direction.

Mr HALL - That was the final point I was going to make. Bob, there are lots of ifs, buts and maybes out there at the moment and from your response many of those haven't been covered off yet. It seems to me - and I will be the devil's advocate here - it would be very problematic for FT to be able to support the TFA in its current form given your responses today.

Mr ANNELLS - I guess it's a reflection of the timing issues that confront all of us. Everything you say is right but in a sense it doesn't take account of what's happening in the marketplace either. We are being seriously impacted in the marketplace as we speak. I have just been to Japan with Ta Ann, Don Henry and Vica Bayley and we made a presentation to the customers of Ta Ann. The reason we went at this time, at Ta Ann's request, was because the Japanese purchasers of their product are now putting out their brochures for the coming year, so Ta Ann said, 'If we don't get in front of them now, we'll be out for another year'. I needed a 48-hour trip to Tokyo like a hole in the head, but I went and I'm very pleased I did because it brought home to me that these issues are real. When you get two representatives from Panasonic, one of the biggest customers for Ta Ann, getting up and asking detailed questions with intimate knowledge of this process and almost to a coupe level -

Ms FORREST - This process being the forest agreement?

Mr ANNELLS - Yes, the forest agreement and the fact it is now being considered by your committee and that we were there too early and were effectively talking about something that hadn't yet been codified in legislation - all of which is true, but we were there

because the timing was dictated by Ta Ann's real concern about the loss of further markets, and I saw a whole range of things there to do with the importance of FSC. Our visit was not without its controversy, in terms of Vica Bayley in particular. There was material sent into that marketplace against our visit at the same time we were there. It is absolutely clear to me that the Japanese market for Ta Ann is totally dependent on peace in the forests and the prospect of FSC. We do not have the luxury from Forestry Tasmania's point of view and in the end it is irrelevant whether we said we do not agree with this or we do; that does not make any difference.

It may make a difference to your committee, Chair, but it doesn't make any difference to the government. But we do support it. Yes, we have caveats. These are the things we want to see to bulk it up and to really make it work from our point of view. They look to be achievable but there is not guarantee. At the same time to do nothing in the face of our declining market and the absolutely proof in my limited experience that this market is capable of being destroyed; it has been severely eroded at this point and will get a lot worse very quickly. The response from these various purchasers of Ta Ann's products could not have been more unequivocal: either fix this once and for all or we walk and do not come back.

CHAIR - On that matter that you have just been addressing your mind to, you said that some material was sent into that market at the very time you were there. What sort of material are you referring to?

Mr ANNELLS - It was material which basically mirrored the comments that were in the press here which was this process has not finished yet. These people are here and it was directed very much at Don Henry and Vica Bayley, saying we do not agree. This was from the Huon Environment Centre and a range of these groups. It was quite a measured document, I must say, but it said we are opposed to these presentations that are being made in the absence of the agreement. That was really what it was saying. They were not saying we will continue this forever. It was very measured but it went directly to many of the people who were sitting in the room.

CHAIR - During those talks was there any indication that the Japanese market is prepared to come back to pre-market attack levels in take-up of Ta Ann product or are we just going to pick up where they are now and dodge along rather than getting back to that pre-market attack area.

Mr ANNELLS - I don't know the answer to that question. It is not an unreasonable conclusion, I suspect, that if these people bothered to turn up to a briefing of this nature at all then they want to stay as a serious customer of Ta Ann. What that means in relative terms pre level or after I do not know. That was not addressed. These people were very well informed, scarily well informed, and some of the questions we got were extremely penetrating. How would I imagine two people from Panasonic would turn up if they had made their mind up that they were out of here. They can get their product from a lot of places. They do not have to get it from Ta Ann. I took in the fact that these people had turned up. I might say there was another major customer who did not turn up and said, 'When you have peace in the forests secured, then we will talk. We are not coming to a talk fest'. They knew where this process was.

CHAIR - Is there any indication of the time frame in the out years as to what that commitment might be in the event of so-called peace in the forests? Are they committing to a time frame?

Mr ANNELLS - I do not know, but I would go back to the nature of the Japanese business. If you are into that market, you have existing arrangements and you have built up a relationship. Then they tend to stick. It is only when something happens that they will splinter away. I saw first hand that there were strong relationships between Ta Ann and their importing representatives in Japan and a number of these buyers, but by the questions the buyers put to us, and particularly to Vica Bayley and Don Henry, they were seriously interested in this process. Panasonic were seriously concerned that the process was not concluded so we were there on a good intentions basis. It is on a knife edge, in my view.

CHAIR - You said that you are an agency of government. That is not strictly correct, is it, because as a corporate entity your first obligation is to satisfy yourself as a board of the commercial/financial viability of the business. I understand where the policy sits around all of this and hence the FTTOC and the work it is doing. I understand that but you are not an agency of government because in that real corporate world your first duty is the fiduciary duty as a board member.

Mr ANNELLS - Absolutely and I believe that the board fulfils that very rigorously, but we are an agency of government in that our shareholders are two ministers of the crown. We are an agency of government in that we are subject to the direction of parliament, subject to the oversight of the Auditor-General et cetera and we are currently losing over \$30 million a year in cash and we need support from Treasury. That makes us an agency of government but we are not in a position to lay down conditions on government as to whether we do or support or under what conditions. It was simply in response to Mr Hall using the phrase quite regularly that 'we have made a condition' and I am just raising the point that we do not make it a condition. There is a caveat of our support, though 'caveat' may even be too strong a word. These are things we believe are really important for us, wearing our fiduciary duty hat.

CHAIR - That takes me to the question about FT's viability with regard to the reduction and the mandated supply of 137 000 cubic metres. You have acknowledged that your viability will be challenged in the current circumstances and will require further staff departures. What is the level of government support? I presume you have done some modelling on that scenario of 137 000 cubes and then the viability of FT with regard that as to the subsidies which you might receive. We know in this financial year of course there is \$35 million in the pipeline available through the budget but then I want to somehow to get, in association with that, to the matter of rescheduling out of reserves. My understanding is that you will need about \$15 million to reschedule out of the proposed reserves. There is \$34 million on the table, as I understand it, from the feds to effect the total rescheduling, so if you take \$15 million away from the \$34 million, you have about \$19 million. That will not see you out for the term of the agreement to 2027 to apply that balance of \$19 million to cable harvesting subsidy, if I could put it that way, because that is going to take about \$4.8 million per year.

Mr ANNELLS - The issue of financial viability of FT I did address briefly last time we were here. Yes there is obviously a consequence in dropping the number from let us say

160 000 to 137 000. That is only relevant if you can sell the 160 000, so the real issue is what does the market actually want. Last year we sold 110 000 but Southwood mill was shut so we would expect you would start doing this put-it-on, take-it-off stuff forever. Southwood takes let us say 40 000; we have lost Kelly's mill so that is 10 000 off. It goes up and down. It is often overlooked that 137 000 is the minimum we are required to provide, not the maximum. If we have demands that go beyond 137 000 then we will meet them.

CHAIR - You will be constrained, though?

Mr ANNELLS - We are constrained in a whole range of areas. It would be a matter for us to negotiate with a whole range of bodies as to whether we could meet more in a given period. We have said publicly we would really struggle to provide in excess of 137 000 over a prolonged period but there is absolutely no reason why we couldn't do it over a much shorter period if the market was seeking it.

However, there is no point in trying to provide sawlogs, and you have your peeler needs, if you cannot get rid of the pulpwood. This is a totally interdependent process. The economic viability of FT will be determined very largely by the price. At the moment the price for arisings and pulp wood is extremely low. We have looked at it from the point of view of if the current prices were at play then it would probably cost us somewhere in the order, I think, of about another \$4 million per year from where we would have been, in theory, but not from where we were last year because last year we only sold 110 000.

The financial viability for us is an extremely complicated issue. What CSOs do we provide? What area are we required to manage? What is our fire fighting obligation going to be? Who is going to pay for this? All of these issues are interrelated. I am afraid I am no better equipped to answer them today than I was a month ago, other than there is a lot of work going on behind the scenes trying to come to grips with it.

CHAIR - I want to stay with the financial side of the business because this whole process impacts forestry. You just mentioned fire, the obligations. I presume that over the last few weeks there would have been a cost to FT of participating in fire fighting. What has been that cost, please?

Mr ANNELLS – Well over a million dollars.

Mr GORDON - It would be well more than a million dollars; that was about the three weeks working on the two major fires in the Central Highlands and the Tasman Peninsular.

Mr ANNELLS - We would expect to get recompense for that in any event.

Mr GORDON - We currently don't under the system, other than for the overtime component. We fund that fire fighting. Everyone else gets paid by the government to fight fires and we had 255 people, I think, on the fires for three weeks.

CHAIR - All you get is the overtime component from the government?

Mr GORDON - There is sort of a self-insurance scheme where the average fire fighting costs over the last 10 years is worked out. I think at the moment it is \$1 million or something like that, and if we spend more than \$1 million we are recompensed for the overtime component of the fire fighting. Again, it goes back to the issue before about how would you easily differentiate between non-commercial costs and commercial costs, and 255 people out of 320 and probably a few more than that performed fire fighting duties. Last year it would have been maybe a couple of hundred thousand dollars. In 2006-07 it would have been several million and this year it will be several million because we are not even at the start of the fire fighting season yet. It is really difficult to predict that and it is not an option for us because without FT those fires would not have been able to be fought as we had. Effectively, the deputy fire control for the state in the incident control room and we had enough crews on all of those fires to make a difference. It is not an option. It is not as if we can say, 'No, we don't get paid for the 150 vehicles that we have as normal field vehicles that have slip on tankers that you haul during the fire season. We don't get paid for any of the equipment. We get paid for a very small proportion.

When you go back to FT's viability we could easily spend \$3 million or \$4 million in a bad fire season on fire fighting. If we're not paid for that it makes a huge difference to FT's viability. It's not as if these people don't have other things to do. They're the people who do the roading and forest practices plans. Work doesn't get done when they're all off firefighting. This is admin people as well so if you went into head office a significant proportion of the head office people - financing, plant et cetera - all are engaged in firefighting when we have the circumstances we had in January and February. This fire season isn't go to go away until April and it makes it very hard. Unless that sort of issue is sorted out, to be able to say FT is going to be viable, we have to fork out \$4 million for fire fighting it is very difficult.

CHAIR - In terms of some sort of inequity there, who else contributes to the firefighting effort, Parks and Wildlife? They are a government department so it's just off their bottom line. For you as a corporation it is a bit different, you're competing

Mr GORDON- The fire service has a fixed budget because it comes from the fire service levy. There is some assistance from the commonwealth in the joint aircraft hire – some of the bigger helicopters and the air trackers that we ended up contracting. If you spend \$14 000 a day on an aeroplane that you need, you spend it; you don't argue about it because we're talking about people's houses. At the end of the day there's a very significant load in some areas of FT.

Ms FORREST – Bob described the challenge of trying to separate out what is a community service obligation and what isn't and you have different outcomes each year. This year is going to be one of those bad ones, I guess. So far as the restructure of Forestry Tasmania, is there is a relatively apparent way this can be managed such that FTR is able to manage this sort of lumpy expenditure in the forward estimates?

Mr GORDON - There's no easy way. Part of the discussion that's going on through the process has to be a more equitable contribution towards the base costs for Forestry of fighting fires. However, the argument is run that we are protecting the assets on our balance sheet so you're expected to spend money, like any prudent owner of an asset, to

protect it. It's when the fire moves off our asset and threatens other parts of the state , as Bob said, you don't sit around talking about it, you just go do it.

Ms FORREST - When it gets to the boundary the fire doesn't stop because it's off FT land.

Mr GORDON - It doesn't stop, so we go do it. Treasury in its wisdom in the past has determined there was a formula that we would be reimbursed - and I apologise, I was confused about that -

Ms FORREST - How long ago was that?

Mr GORDON- It was more than 10 years ago. At that stage we would have had maybe 600 staff and 350 fire fighters. The only difference between us and the government departments is Forestry Tasmania people grow up and are trained to manage fire, whether it is active fuel reduction burning, high-intensity generation burns or wildlife fighting. We have a reasonable number of people who are very experienced firefighters despite there not being a particularly bad fire season for the last six years. The people who are in the fire service and Parks their general only experience of fire is the 'oh whoops' moment when a wildfire hits. They don't get constant exposure. For anyone who's been in that situation it is quite terrifying. If you've been working with fire all the time, whether it's fuel reduction burning or high-intensity burns, you're much more able to cope with dealing with a wildlife situation because you're used to the circumstances of dealing with it. It's a bit like emergency workers who train and go into a process

Part of the issue too is we used to have a hell of a lot more forest contractors, all of whom were trained in minimal firefighting, fire weather reading and immediate response. We had a lot of experienced people, particularly on bulldozers, who could put a fire break in for you. We've got less of those than we used to have because of the treatment of the industry. I don't know what the solution is but to me it's something that needs a lot more work than is being put into it.

Ms FORREST - Just going back, I think it was 1996 when FT stopped being funded for their CSOs. Is this the sort of time frame we are talking about?

Mr GORDON - It was probably a bit after that. There was a formula put in place and the concept at the time was self-insurance.

Ms FORREST - By FT or the government?

Mr GORDON - Effectively both. At the time the average amount we spent on firefighters was about \$600 000 a year and Treasury said, 'You fund the first \$600 000 and if it goes above that in any particular year we'll fund it because it's an unusual circumstance', a bit like self-insurance for workers compensation. If you actively manage people's health in the environment it's always cheaper to go through an insurance company. The problem is if you have a couple of incidents in one year you weren't expecting it hits your cash flow.

I still think that the system we have with the Fire Service, Parks and Forestry all having the same systems, the same equipment, the same hose sizes, the same pumps and the same incident management control, is by far the most cost-effective way to manage fires. When FT was making a profit of \$10 million or \$12 million a year the government was

saying we were effectively subsidising firefighting, roads for other activities and a whole range of other things. When the market tightened and Gunns, FEA and other people collapsed and the infrastructure for chip exports was shut, our revenue streams dried up and that's when it really hurts, when you still have to deliver these other obligations but you haven't got the cash to do it.

CHAIR - I want to understand what modelling you might have done in the past and what modelling you might have been involved in during this journey over this negotiated process. Am I right in understanding that there is some sort of arrangement between Forestry Tasmania and either Aurora and/or Transend as to the power supply to the new wood facility in the south? If there is commercial confidentiality around that I accept that, so the question would be what sort of an arrangement is there and what exposure does FT face now in terms of satisfying that or paying it out? There has been some publicity about it in recent times in the media and that Ta Ann had negotiated some sort of a settlement. I don't know what the arrangement is.

Mr GORDON - When the two Southwood sites at Smithton and Huon were established around 2004-05-06, the site at Smithton had direct access to the normal distribution system for electricity, so it was just a straight connection. At the Southwood Huon site the power line that went out to the fish farm up the Russell there was like a domestic power line supply to there and the power requirements for the sawmill and the veneer mill greatly exceeded the capacity of that line. I wasn't at FT then so I have looked at the records but I was not involved, but at the time it was determined by Transend that the high voltage power line would be a private line which meant that the new wood companies that were subsidiaries of Forestry Tasmania effectively had to fund the capital cost of that power line.

That was done effectively by vendor finance from Transend to FT and with the reduced throughput, particularly when the sawmill was shut for 12 months because it was a major electricity user, we had to bear the cost of that fixed cost of the repayment on the line and Ta Ann in the last six to nine months substantially reducing its throughput into sawlogs also reduced the electricity demand which means that the fixed costs of the power lines are much greater proportion of the cost of electricity. My understanding is that the government is committed to resolving that issue. How it is resolved the detail still has not been worked out but that is my understanding of the government's intention.

CHAIR - What is the likely exposure to FT of that in terms of dollars?

Mr GORDON - It is in our balance sheet, in our last financial report. I think the get-out value was about \$9 million, but if someone has the annual report I could look it up. It is in our long-term liabilities and I think it's matched with an asset which is the income we get from the power line.

CHAIR - We can have a look and if we are uncertain we can contact you.

Mr ANNELLS - But the indication from the government is that this would be resolved without financial impost on FT. We haven't seen the details of this but certainly the indication to me as chairman is that this will be resolved without it being an impost on Forestry Tasmania.

CHAIR - Did you understand that conversation to mean from the compensation moneys coming from the federal government?

Mr ANNELLS - No, I don't think this issue is being dealt with from the compensation moneys at all. I think this is entirely a matter the minister is dealing with Treasury and Transend.

Mr GORDON - If there had been multiple users which, in effect, there are, it's just all wheeled through the one substation, then it would have been a regulated transmission asset which means that you don't have to pay for it yourself. It is extraordinarily complicated, quite frankly.

Ms FORREST - Ta Ann made it against [inaudible].

Mr GORDON - Well, they are wheeled through our substation but we are in confidentiality agreements with both Ta Ann and Transend so I can't go into the detail of that although, as I said, it does appear in the balance sheet as a line item.

Mrs TAYLOR - What are the terms of that, how long is that contract? Usually when you do a private line it is guaranteed by so much for a certain number of years.

Mr GORDON - I think it is over 20 years from 2006. From Ta Ann's point of view they have been paying much higher electricity costs than they would have under other circumstances and from Forestry Tasmania's and Muirs point of view we have had a large fixed-cost exposure to the fixed costs of the line. The original proposal for both Southwood sites at Huon and Smithton had bioenergy power plants which would have paid for most of the fixed costs of the power line because they would have exported energy but it didn't go ahead because the company we were dealing with collapsed. Babcock and Brown infrastructure fund, one of Australia's biggest funds, collapsed during the global financial crisis and they were the proponents for part of the funds. A whole lot of the politics about the use of native forest wood waste has come since then.

CHAIR - If Ta Ann packed up and went if this bill did not proceed, they are probably your major customer now with Gunns out of the equation, so what would that mean to Forest Tasmania's business with them out, presuming there was no replacement for the value-added downstream processing?

Mr GORDON - It would be very difficult to keep the harvesting contractors profitable because we pay them a higher rate per tonne for segregation of high quality sawlogs and Ta Ann peeler-grade logs. We would have to downgrade that product into woodchip logs which is where it came from originally before Ta Ann because all the logs they take used to be classified as pulpwood-grade logs and I suspect we would have great difficulty keeping a viable forest industry, in my view.

CHAIR - And by connection a viable FT as a business?

Mr DEAN - On that point about the billet logs for Ta Ann, under the current position and agreement will you be required to provide them with a small tree now, right from the start, to provide that timber to Ta Ann, or will that still be available from other logging that you will do to provide the timber to the mill? How will that occur now?

Mr GORDON - In practice, Ta Ann is supplied with two different types of logs. For small trees, so trees less than about 30 centimetres in diameter, they are provided with the log at the bottom of the tree but most of their wood, if you drive down to the southern forests or north-east highlands, then the butt log, the first 5.5 metres will be a sawlog and then the logs above that, which is the majority length of the tree, would be classified into Ta Ann grey logs and as you go further up a tree and the log gets smaller, they will either go to export peelers or pulp wood. For the last six to nine months we have been working with Ta Ann on doing a series of operational trials in the mill looking at the recovery of veneer from different grades of logs. These are rough numbers, but if they were peeling sawlogs, they would get a very high recovery of high-quality veneer - maybe 60-70 per cent. The grade of logs they are peeling, which go down to 18 centimetres diameter, they get a lesser recovery of veneer from and if they took an even lower grade of log they would get less recovery of veneer.

So it is about the economics of their operation because the costs are about the same for peeling all of those logs; it is just that you get more veneer. It is a bit like the grades of sawlog; a cat 1-3 sawlog gives a much higher recovery of high-priced sawn timber products than a cat 2 or cat A because it is less defective and we have also done some trials with them on some of the plantation material. The practical problem is that the plantation material was scheduled to come on stream about 2024 or 2025 because that is when it was big enough but it is not quite big enough at the moment, and that is the problem but it will be big enough in the near future.

Mr DEAN - So that I am clear on this, will Forestry Tasmania now have to provide a greater number of smaller trees to satisfy the contractor or the position of Ta Ann because of the movement away from other logging operations?

Mr GORDON - I think what will happen in practice is that we will renegotiate the contract with Ta Ann to get the available timber.

Mr DEAN - The reason I ask is that we had a private provider give evidence to this committee of contractors working in his forest where he specifically asked that they not take the smaller trees and, lo and behold, when he came back they had taken the smaller trees in many instances to provide obviously to Ta Ann, as I understand it, and that would have, as he indicated, a detrimental impact on the management of his forest moving into the future.

Mr GORDON - That suggests to me a lack of appropriate supervision and incentives for the contractors. In a lot of our forests, particularly with the high altitude stuff that you selectively log, we deliberately instruct the contractor which trees to leave, depending on the type of operation you are dealing with. If you don't do that then you are degrading the value of your forest. In most of the high altitude forests, we either remove the big trees in order for the smaller trees be able to get enough light to grow up, or in some cases we will leave the pole size trees and remove some of the other trees so that they have a chance to grow into sawlogs in the future. For example, I know of one operation just south of Burnie where the contractor was getting about 60 per cent of recovery of Ta Ann grown peelers. Most of the rest was sawlog because it was a clear fell operation and they were particularly focused on the segregation. But there is probably not as much

capacity in some of the smaller private owners to put in the same sort of control systems that we have over contractors.

CHAIR - I don't know how I allowed you to go that far when we are talking about finances, but in my usual foolish way, I let you go.

Mr GORDON - Sorry.

CHAIR - No, that was my fault, not yours at all. I will just ask finally on the financials, if I can. I understand that there have been in the past various cashflow analyses, even out to 20 years, and that for a previous board there were such analyses out to 20 years and the contention was, or the proposition was, that FT would need to involve itself in downstream processing, either as an exporter in woodchips, if you like, or a manufacturer and/or wholesaler of engineered wood products to in fact remain as a viable entity. The first question is, is that true that such analyses have been done in the past? Secondly, what is the government's attitude to FT moving beyond being a grower and manager into being more involved in the commercial world? That will just about see me out, I think.

Mr GORDON - FT has had a 25-year cashflow model and the reason for 25 years is that is about the rotation for our eucalypt plantations. It makes a huge difference to our cashflow when the pruned eucalypt plantation logs come on stream. If you go back to the RFA, the TCFA and all the wood flow models, all of them had a decline in cut of native forest sawlog until about 2020-something. At that stage, the eucalypt plantations are old enough for the pruned logs to be ready to harvest. When they come on stream, that is a huge increase in our cashflow. If you go to the URS report, they identified that same substantial increase in cashflow. I think they said the first would be about 2016-17, which is why they said FT only required cash financial assistance for the first three to five years because after that some of the pruned plantation logs were old enough to come on stream. You had to do 25 years to get over the replanting cycle of the plantations.

In that we also identified that longer-term exporting chips half way around the world was not likely to be a viable business. The only viable alternative to that was engineered wood products, which are commonplace and much more widely used in North America and Europe than they are in Australia. We identified a strategic objective doing the hard slog work both in an operational sense and a market sense, to prove up engineered wood products like hard hardlam and high density and medium density fibreboard and do what we did back with the first forestry growth plan back in 1998 when we identified that rotary veneer for production of high-quality veneer from regrowth eucalypts was possible - and every one else at the time said it wasn't.

When Ta Ann established, Forestry Tasmania had 10 per cent of the equity in that firm mostly because, and I don't know why, but they were concerned about sovereign risk and uncertainty in Tasmania, and they wanted someone else to help them through the process, so we took 10 per cent including the mill, which has successfully been paid back down. We were paid back for our equity. That was identified as an issue, not necessarily whether Forestry Tasmania was the investor in those enterprises, like when we went back to the rotary veneer mill concept, we ended up attracting a respected well-established company to do it. That issue of whether FT was necessarily the investor in the capital or not wasn't part of that 25-year cashflow.

Mr ANNELLS - Looking to the future, this board is clearly faced with a whole different set of circumstances than the previous board was. We have some different numbers, a different market and our job, starting I think with a day session in a fortnight's time, will be to develop a new strategy moving forward. Again, there will be uncertainties so we won't be able to nail it down completely but we will have to make some base assumptions.

We have asked management to start with a base case and we will do some scenario-playing which we will put to government. I think inevitably, as part of that, without pre-committing my board, Forestry's involvement in downstream and in international marketing is inevitable in the short to medium term.

If we don't do it then I think the consequences are much more serious than if we do do it. But if we do do it there are some market distortions, there is no doubt about that, but they are, in our view, distortions that one would accept to get through this very difficult period of the next four to five years.

The URS material clearly demonstrates the impact, given some assumptions, about what I think they even may have described as this 'wall of wood' that is coming towards us through the plantations starting in roughly five to six years from now. Provided that the market recovers to a reasonable extent, provided we have been successful in our marketing activities, particularly in China but not just in China, particularly if we are able to give certainty to our customers to other users of our product then I think the URS work shows that in fact you'll go back to a Forestry Tasmania that is quite a profitable enterprise and with very significant economic benefits as distinct from just looking at the financial viability of FT.

I think that has tended to be overlooked, that even in our current dire circumstances the forest industry is still producing a considerable amount of economic activity and a lot of it is being supported, if not driven directly, by Forestry Tasmania.

CHAIR - Do your shareholders have a view about that penetration into the commercial market?

Mr ANNELLS - They haven't been confronted with it specifically but I think from our own minister's point of view, 'cautious support' is how I would phrase it. I think he is saying, quite reasonably: just make sure you don't go anywhere that the industry can do on its own; don't get away here but we do accept that the industry is in a very difficult situation, economically very stressed and at times I think it is recognised that we are the only people who can do this at the moment. We can only do it with the support from government that we are getting in operational support - the \$35 million this year and then \$20 million and \$20 million over the next four years.

These were numbers produced by URS, not by us. We think they are probably okay and the \$35 million certainly looks to be on the mark. The \$20 million each year we are yet to see. Again there are moneys flowing to us should this agreement be ratified but there are moneys flowing to us right now in anticipation.

You raised some questions, Mr Chairman, about the amount for rescheduling. We didn't really answer those questions for you. As I understand it and at the risk of being contradicted, \$15 million was always deemed to be a mistake so \$15 million was a combination of re-roading and subsidies for transport.

What has happened in the interim is they have given an advance on that money, not as part of the IGA funds effectively but saying: well, we accept that you should be out of these coupes, you should be rescheduling and we accept that you don't have the funds to do it on your own so we will give you that money regardless.

If the IGA doesn't get up then they are not going to ask for the money back. We will have, in part, rescheduled, we would have money to subsidise transport probably through to 30 June this coming year absolutely and we would expect through to 30 June and beyond that, 2014, but that is yet to be confirmed. The \$15 million is not coming from the commonwealth, it's coming from the state.

You mentioned a figure of \$34 million which doesn't resonate with me, it might resonate with my colleagues from the commonwealth but the cable logging in any event is not out of the commonwealth allocation. If my memory serves me correctly it's a state -

Mr WHITELEY - I've read it locks that component. As you've suggested, it was the \$4.8 [million] for a number of years.

Mr ANNELLS - Was that from the commonwealth or the state?

Mr WHITELEY - From the state, I understand.

CHAIR - Whatever, it won't see you through to 2027 at \$4.8 [million] a year because you've only got \$19 [million] left out of that \$34 [million]. There are some challenges about the cable harvesting.

What about the matter of Ta Ann's 'take or pay'? There are some issues sitting around that, aren't there, with regard to financial exposure to FT because they are not going to pay their \$265 000?

Mr ANNELLS - They are not going to take it and I doubt whether we could supply it at this time because there is a direct relationship in many ways. The economic provision for us of that amount of wood to Ta Ann is dependent upon taking a much higher level of sawlogs out. I think that's a bit academic. The issue for us about 'take or pay' is we have come to an arrangement with Ta Ann which gets us through to 30 June this year. We won't be enforcing the 'take or pay' in that context but there are other benefits that they are giving us, which is commercial in confidence here so I am a little constrained. I am very happy with the position we have arrived at with Ta Ann between now and 30 June. Beyond that all bets are off. We need to see what happens with this legislation.

We need to see what [happens] if the legislation doesn't get up. There will be as well issues to do with the commonwealth buyback funding scheme and whether they come to an agreement with Ta Ann. We are not party to that. So there is a whole range of things that will come to fruition between now and 30 June. That will go to the question of whether Ta Ann and we ourselves are back at the negotiating table over 'take or pay'. It's

not clear-cut and there is no point in driving Ta Ann to the wall over an issue which, quite frankly, is likely to cause us just as much pain as them in trying to provide the supply.

Ms FORREST - You were talking before of the cash-flow projections over 25-year [inaudible] understand that. You also mentioned that the other \$110 million in the forward estimates in the budget, that \$35 million issued between the out-years for the next couple of years. Bob, you also mentioned the 'wall of wood' coming with the plantations and how that has all been factored to the 25-year cash-flow projections. When we talk about plantation replanting, seriously, how can we expect that to happen within the clutches of the MIS scheme? That's what it was dependent on, as I understand it.

Mr GORDON - Our plantations weren't funded by the MIS schemes.

Ms FORREST - It's only yours we are talking about?

Mr GORDON - It's only ours we are talking about.

Ms FORREST - Okay.

Mr GORDON - Most of the MI schemes, except for about 500 hectares out of the 200 000 hectares, weren't pruned. If you don't prune and thin then you won't produce high-quality, clear wood. Whereas our plantations are mostly high-pruned and thinned and managed in a way that will produce high-quality logs about this big with a knotty core and the rest, and the rest of the tree is not free. That's the 'wall of wood' we're talking about. Our thinnings wood, that is from thinning the trees, has started coming on stream now, which is why it was so important that SmartFibre at Bell Bay re-opened. Again, there are actually two components of that extra cash-flow coming in: one is the thinnings and one is from the clear-fall where we get the pruned logs. The managed investment scheme plantations in general haven't been managed that way and they can only produce pulp wood.

Ms FORREST - I accept that. We did talk about this and maybe this is an answer; I just wanted to clarify that with the new board's approach to the future and the 25-year cash-flow projections it will not doubt generate somewhere along the line, does that take into account the two sides - one of support for this agreement and thus a certain pathway, and [the other] then, not?

Mr ANNELLS - We will have to. Clearly we need to take account of both possibilities and we will try to do so.

Ms FORREST - When do you expect to have that done?

Mr ANNELLS - We have well and truly started it but the board will formally start the process next week or the week after.

Mr GORDON - In two weeks.

Mr ANNELLS - I'm not sure, however, that the position we will find ourselves in, with or without the IGA, will make that much difference to the course we have to follow. It may well make a difference to the financial outcomes, but regardless of whether this gets up, should Forestry Tasmania still be actively seeking international markets for pulpwood? I think the answer to that under either scenario in the short term is absolutely. Will it make any difference in solving the problem of arisings and residues out of the southern forest? It makes no difference. Under either scenario we have to solve those problems.

Ms FORREST - So regardless of whether the agreement is supported or not, your cashflow projections will be fairly similar?

Mr ANNELLS - No, the cashflow predictions may be different but our strategy is going to have to be the same. These are real issues that the industry is facing right now. People keep talking about plan B and a lot of work has been done on plan B - I don't know that to be a fact but I am not challenging it - but we are trying to think about what we do if this doesn't get up. We would be derelict as a board if we didn't think about it. We are thinking about it. It's not something we intend to publicise but it is very much at the forefront of our thinking.

Ms FORREST - Part of your basis for support of the agreement is based on the ongoing financial viability of FT?

Mr ANNELLS - It's based upon the fact that we believe that without this agreement the market attacks will resume and intensify and become ever more effective and sophisticated. They will spread even more from the international market to the domestic market. When people tell me that those groups that have an interest in disrupting our markets in such circumstances have the power to do so, I believe them; the evidence is overwhelming.

As to the financial viability of FT, I'd rather talk about the impact on the financial performance of FT. We believe it will be much worse without this agreement than with it. I can't give you precise numbers; it has ifs and buts and I accept that. My recent trip to Japan simply confirmed my view that without it you're fighting with very little. Financial viability for us over the next five years is probably about decreasing the requirement for subsidy, and none of us like being in that position. These guys have never had to work in that condition perhaps for the last couple of years. It's not where we want to be; no-one wants to be in that position.

Ms FORREST - So hopefully the \$110 million is the end of the support?

Mr ANNELLS - Absolutely.

Ms FORREST - I reckon the taxpayers of Tasmania do too.

Mr ANNELLS - Absolutely. The Weld wood will undoubtedly help that scenario but if we're not careful there is the potential that the industry will be so run down by the time we get to that point, and FT will be so run down as an organisation in numbers and skills, that you can't keep great people in an organisation that is racked with uncertainty and under constant attack.

Ms FORREST - Are you saying we will no energy to fight over it?

Mr ANNELLS - I think that is true. I know there are many other considerations you have to make but that is what I have seen in the five months I have been involved here.

Mr GORDON - If you take the comment about the \$110 million subsidy, some of that I think we have all recognised is payment to Forestry Tasmania for firefighting, for roads -

Ms FORREST - I accept that.

Mr GORDON - So some of it is simply paying the bills for community service obligations we have been delivering -

Ms FORREST - Which you have not claimed since 1996.

Mr GORDON - We have claimed but have not been paid for, but we have still been undertaking them. When we do the scenario analysis, it is much more critical whether Forestry Tasmania is still the production forest manager and whether we are paid for CSOs. That has a substantial effect on cash flows.

Ms RATTRAY - In relation to the FSC accreditation process, how much of that accreditation is based on the community support of the forest and what happens? Do the environmental groups have all the say in that social licence aspect? Is that what I am hearing from the Japanese markets?

Mr GORDON - I think there are two separate answers to that question. The first is that FSC has three chambers which have equal standing - economic, social and environment - but they generally work by consensus. They expect at the end of the process that there be general agreement about something. In theory, FSC certification is conducted by an independent auditor who assists the applicant carrying out that process. John Hickey, who is appearing later this afternoon, is much more up to speed on the technical aspects of FSC.

Ms RATTRAY - I was interested in the Japanese scenario.

Mr GORDON - In Japan it is more a matter that the Japanese have been saying for a while, 'How do we make these people go away? We do not want controversial wood'. Their proxy for that is if it has both PEFC and FSC then that is sufficient defence against the more radical groups that will potentially never agree with any production forestry, but that is separate from the process for getting FSC certification.

Ms RATTRAY - Does Japan not take any wood from some of the other countries that appear not to have rigorous regulations in place? How do they handle that or is it the fact that nobody protests over that?

Mr GORDON - I think it would be fair to say that the activist groups opposing what is probably the world's best forest practice in Tasmania are not present in Indonesia, the Solomon Islands, Papua New Guinea, parts of Malaysia and Africa, so there is a different test.

Ms RATTRAY - There is a double standard?

Mr GORDON - There is a different test and so that scrutiny is much higher on Tasmania and the funding for those organisations is greater. To give Vica Bayley and Don Henry due credit, they have acknowledged that Tasmania does manage forests well and have said they will actively support marketing in the marketplace. You should ask some of the other ENGOs that if you get the opportunity.

Ms RATTRAY - We have had a lot of discussion around specialty timbers and access to timber at a reasonable price with a long-term future. Would increasing the 137 000 cubic metres, and I heard what Bob said about that. It is the minimum take and not the maximum, if you can find any more. Would increasing it to the original 152 000 cubic metres make any difference to that industry and other industries that are already surviving the marketplace? Would that make any difference?

Mr WHITELEY - If I could refer to the special timber strategy document that I think you have seen, what we did when we put the strategy together was to identify three core supply areas. One was the blackwood area, the blackwood swamps; one was the largely rainforest area and the third important area is about 20 000 hectares of mixed eucalypt and special species.

Ms RATTRAY - We heard how important that was last week.

Mr WHITELEY - Yes, so in answer to your question in that component there is a direct relationship between the eucalypt sawlog and special timber supply so to the extent that the land base covered within that 20 000 hectares remained available for production clearly that would benefit the ability to supply both your good sawlogs and special timbers.

Ms RATTRAY - We have heard about how this whole thing has been the art of negotiation for months and months now, do you feel there is an intent to negotiate from, say, this House an increase back to that 152 000 cubic metres? Would that provide a pretty reasonable negotiated outcome in your view?

Mr WHITELEY - As I said, the relationship between the two, if you are talking about special timbers is really just focusing on those areas that are rich in both eucalypt and special timbers. If you were to contemplate that that would be the area you would focus on. It is probably in practice an area of around 10 000 hectares so it is not a huge area but clearly it is significant and probably picked up in World Heritage area claims and those sorts of things.

Mr ANNELLS - It is not cubic metres-based, it is area-based. It is where the special timbers are. I think everybody acknowledges that there is a problem still to be resolved on this issue and it has to be resolved.

Ms RATTRAY - I am looking for a resolution from -

Mr ANNELLS - Moving it back to 152 000, with respect, would not solve our problem because that doesn't tie the difference into a particular geographic area. It may take it back to an area of where there are no special timbers but there is plenty of sawlog. The

issue for us - and we have been working very hard with this with the signatories - has been how is a process developed that gives us some more time to actually determine how we meet the demands of the industry for these special timbers and the mechanism that the signatories envisaged and the identification of the special timbers and craft zone doesn't do it. We need to continue with the current negotiations to develop a mechanism where we can do this study. The funds will be made to flow from the commonwealth. I am not sure whether they have been released in advance -

Ms FORREST - We were told this morning they have been \$2 million.

Mr ANNELLS - Right, has been released.

Mr GORDON - We haven't seen the money yet but we have announced it.

Mr ANNELLS - Trust has never been one of your high points, Bob, but let us say we do have that money. We need to get on with that study building on the excellent work that, I might say, has already been done. There is expertise available to Forestry that we need to tap into and use this \$2 million and come up with a solution that meets the reasonable needs of this sector of the industry. Just moving the cubic metre target is not going to solve that problem.

Ms RATTRAY - I have one to finish off on that, Mr Chairman. I am interested in how much of the remaining 504 000 hectares that has not been earmarked for World Heritage listing out of the 170 000, how much of that would have speciality timber aspects that we might be able to excise?

Mr WHITELEY - I can do the detailed notice, but certainly there has been a request from the signatories to provide information to them. It has been recognised that not all of the identified special timber craft zone is likely to be productive in special timbers. There has been a request to say if they were to review that what are the areas within the 504 should they look at and we have provided that information to them.

Ms RATTRAY - The signatories already have it?

Mr WHITELEY - Very recently. They only requested it last week and we have now provided it.

Ms RATTRAY - Can we have it, if it's available?

Mr WHITELEY - It is a listing of areas, so it is not a volume-based, it is more to the extent if there was an area to be reviewed -

Ms RATTRAY - Out of those 295 lots, if that is helpful, how many might fit that criteria?

Mr WHITELEY - We haven't done it in terms of lots at this stage, but that could be done. The lots have been prepared by another agency and that is not something that we have used to provide that advice, but the two could be related.

Ms RATTRAY - So that information is available and this committee could access that from the signatories?

Mr WHITELEY - I believe so.

CHAIR - Well, we could get it as an amalgamation between the FT's information and the maps that are prepared by others.

Mr WHITELEY - That's right. They are in quite a different form at the moment, but obviously that information could be compiled.

CHAIR - We can ask somebody to coordinate with FT.

Ms FORREST - You have gone some way to talk about the information that is being provided to the signatories. Who in FT is providing that information and what skills have they got? There is some criticism that there are people outside FT who have this knowledge and who have worked in the past, Mike Peterson being one. What work is being done to facilitate or co-ordinate this information to inform the signatories, particularly under clause 9 I think, that work is to happen. The money is now, I understand, flowing to help.

Mr WHITELEY - What has been provided is picking up on the work that Mike Peterson had done in the past, which identified some areas, so the information that has been provided is from a geographic information system and it purely said: which were the areas identified by Mike in the past and picked up in the strategy that are currently part of the proposed reserves.

Ms FORREST - So you have all Mike's information -

Mr GORDON - Mike worked for us.

Ms FORREST - I know that.

Mr GORDON - He doesn't have any information other than what he had when he worked for us.

Ms FORREST - That's fine, I was just getting it on the record.

Mr WHITELEY - All of the areas that have been identified by Mike and others that were not in the production zone and not in the special craft timber zone and are in the reserves, but are outside the world heritage area, have been provided to the signatories. Assuming that a world heritage area claim has a process of its own, this is all the other areas that are in the proposed reserves and if they have been identified as being special timbers rich that information has been provided to the signatories.

Ms FORREST - Who within FT has undertaken that work?

Mr WHITELEY - Our strategic planning people, so it is picking up the existing work that has been compiled by Mike and others over many years.

Mr WILKINSON - I have a supplementary with that question because it was part of the question anyway that I was going to ask in relation to speciality timbers. I have had a

look at it over the last few months. It would seem to me that a great deal of specialty timber is in the new World Heritage area. We don't have much say on the World Heritage area listing because it is in another jurisdiction. Therefore, is there enough specialty timber left in the areas outside world heritage to properly support the industry?

Mr WHITELEY - I am just referring to something I was sent this morning, which was something we have just done. Of the 100 000-odd hectares that were identified there are about 15 600 of those picked up in the world heritage area claim.

Mr WILKINSON - And in amongst that there is significant cubic metres of specialty timber trees?

Mr WHITELEY - Yes, it was within the eucalypt component, so there was the mixed eucalypt which is the most accessible part of the current special timber supply; there is about 18 000 hectares previously identified and around 6 600 hectares of that is part of the World Heritage Area, so quite a significant proportion of the currently most accessible areas. Of the rainforest areas which generally were currently less accessible but nevertheless rich in special timbers it was around 9 000 of 71 000 hectares, so again a reasonable proportion has been picked up in the World Heritage Area.

Mr WILKINSON - Was that outside the original 124 000 hectares? Is that the amount you are speaking about at the moment?

Mr WHITELEY - No. The additional areas are all existing reserves such as Mount Field National Park. There are a number of other areas that have been rolled up to make the 170 000 hectare area. This is part of the 123 000.

Mr WILKINSON - I know one of the signatories is saying, 'If specialty timbers isn't organised we're walking away'. It would seem that Forestry Tasmania is extremely concerned with that. You go to the Wooden Boat Festival and there is all this talk about what a wonderful thing it is, what a wonderful opportunity it is for economic growth, how this is Tasmania's heritage, members of parliament talk about this in parliament. That is on the one hand and on the other hand we're saying, 'Sorry, no more supply', which is a real concern for the specialty timber people. When do you think you will have the figures in the end so hopefully we can have a look at them before March when we come to debate the issue?

Mr WHITELEY - As we understand the stages as proposed by the signatories which makes sense in terms of their process, the most important decision they need to make in the immediate term is their study area for the management plan. Part of what needs to be determined is the scope of their study. They need to determine whether they choose to extend their study area beyond the current production zone in the special timbers craft zone into some of the other prospective areas in the proposed reserves. That is really a decision for them. Once they have made that decision then we need to go through a process of going back through the detail and understanding exactly what the characters of the different species are.

Mr DEAN - Some of my questions have been answered but I have been going through your submission. You made comment here in two places in particular about the process we have gone through and the lack of scientific and technical processes involved in this

whole thing. Obviously that is of concern to Forestry Tasmania and you would have much preferred there to have been scientists involved in this whole thing to have come up with maybe a different outcome. Do you wish to make any statement in relation to that? On page 5 of your submission you made the comment that the signatories process was based primarily on negotiation rather than scientific and technical process. Do you wish to make any further comment on that?

Mr ANNELLS - I think it largely speaks for itself.

Mr DEAN - Do you believe that there is now a place for it somewhere?

Mr ANNELLS - No, I don't think so. The point made there is in part in deference to the staff at FT and the processes that have gone before this where an enormous amount of science-based research was undertaken to draw up a range of plans and scenarios. FT historically has been a world leader in science-based forest management and practices. That was not the process followed here and there was no pretension it was ever going to be. Whether people took a view that science-based research didn't cut it in the Tasmanian environment because it would produce a result which would not be socially acceptable to a group of protestors, or people who had a different point of view, I don't know, I wasn't involved.

There has never been any pretence that this is science-based and, as an organisation, I was not unhappy with the inclusion of these words in the document. It made our position clear but we have said that notwithstanding it's not science based and we can't prove the economic case at this point in time, we recognise the absolute reality of the operational environment within which ourselves and the rest of the industry is having to undertake our business, and no amount of complaint by us about the lack of a science base is going to solve that problem. I guess that is where we came to.

Mr VALENTINE - There are contractors who have some major assets who believe there are currently new contracts going to new players, and Forestry Tasmania is leading those, while they are burdened with infrastructure and no quota and left floundering out there. Can you give us an understanding of how you're dealing with these sorts of things, the processes you're going through to put on new contractors, or isn't that occurring?

Mr GORDON - I don't know what you mean.

Mr VALENTINE - New contracts are being let by Forestry Tasmania to some new contractors in the industry while some of the old contractors who have the infrastructure et cetera are being left to flounder.

Mr GORDON - There were certainly a lot of contractors paid out by the commonwealth not to be in the industry anymore, some of whom may be regretting that decision.

Mr VALENTINE - These weren't.

Mr GORDON - I'm not aware of any contractors who haven't exited our system, either through the contractor exit program funded by the commonwealth and state governments as part of this process, or -

Mr VALENTINE - Maybe their information is incorrect.

Mr ANNELLS - If you have a specific example we are happy to deal with it.

Mr VALENTINE - Recognising there may be commercial sensitivities in this question, in Japan you mentioned Panasonic was interested in our products and asking questions. Do you know what they were interested in using the product for?

Mr ANNELLS - They are the largest flooring manufacturer in Japan; they have a huge non-electronic industry. Their whole business is retail based and their big fear is their brand integrity is being attacked which will flow to their electronic division from something they're doing with timber, the accusation being that the timber is not appropriately sourced, and no amount of our saying it is solves the problem. Part of the problem I suspect is that the phrase 'native forest' translated into Japanese is 'pristine'. There is an issue here we're going to have to deal with because it conjures up something completely different.

Mr VALENTINE - I was just interested to know whether they were involved with the nanocrystalline technology, the new aspect to developing electronic displays and the like.

Mr ANNELLS - I'm sure the company is but these guys were very much forest product oriented.

Mr VALENTINE - Given the area allotted for special timbers - and I know you are doing a fair bit of work in that area anyway - what cycle are you envisaging for the turnover of celery-top and sassafras? Are you looking at 200-year cycles? I know boatbuilding is 400 years. Is this sustainable into the future?

Mr WHITELEY - With the sort of things we've based our wood flows on, celery-top would be based at around 400 years and myrtle around 200 years. Huon pine is a bit different, where it's looking at a residual resource - some of those logs are many hundreds of years old. All of those species quite happily regenerate. We have lots of areas that have been harvested. We have lots of young celery coming back. A lot of that is really to do with protection from fire as well. To get to 400 years, there are a lot of things you have got to get through to get to that age.

Mr VALENTINE - I guess I am wondering whether we are looking at something that can be sustainable, in terms of the areas set aside for special timbers.

Mr WHITELEY - I think that has been one of the decisions that have been made. One suggestion that has been made, particularly by the industry, is having a look at the demand side a bit more. A lot of work has been focused on the supply side. The new management plan for special timbers envisaged in the TFA will also pick up some different thinking about the mix of supply and demand. That is essentially what we have done with Huon pine at the moment as well. Rather than thinking there is a tiny amount out there, and having a scale that is not economic to process or market, there may need to be some policy decisions made about an appropriate level of supply for a given period.

Mr VALENTINE - Thanks for that, Steve.

Dr GOODWIN - I am trying to get to bottom of this special timbers issue. Lyndon Schneiders, who was here earlier, said something about a lack of data for specialty timbers - we do not know how much is needed, where it is, how to harvest it and how the market is. Is that a fair assessment, or are we a bit further along than that?

Mr WHITELEY - That is possibly his knowledge of it, having come from interstate and being used to North Queensland. I think he has had a fair bit of learning to do. When people talk about rain forest in Tasmania, he has a completely different view of that. During the time he has been here, that is something he has had to come to grips with.

There is a lot of information about these things, but it is at a particular scale. If you take the example of Mike Peterson - he spent five years identifying some of these areas. There is a lot of accumulated knowledge, but it is a very specialised, dispersed set of species - they are long lived, and they get damaged by fire and wind and insects and those sorts of things. It is still a dynamic system, even though it is quite dispersed. Coming to grips with exactly how much wood is available on a particular patch - it is not quite like a plantation or a regrowth eucalypt stand, which are quite uniform compared to some of these long lived and more disperse species. When a small area is put up and people ask what exactly is on it, it is not a simple question to answer in the short term. There is an expectation people have, because of the very good knowledge base related to plantations and eucalypts, that the same principles apply to some of these species, and that is simply not the case.

When planning is done for these areas - obviously there has been a strategic plan put in place and we know broadly where the species are, but when it comes to carrying out a plan to harvest a particular type of log for a particular market people need to go into the field. They need to have a look at that particular area and make sure the condition of the trees is as they expect. It is not a simple matter of saying we know everything about every hectare of the 100 000 hectares in great detail. It is a matter of managing that over time.

Dr GOODWIN - In terms of this latest exercise, which is about going back to the signatories and saying you need to find some more area for specialty timbers to be harvested, is that to meet the 9 000 cubic metre target that has been set?

Mr WHITELEY - No, I don't think there are any targets. I reported last time we presented here that there had been a very preliminary look, which just looked at pro rata area. We assumed that if the area had been reduced by 50 per cent, then the volume correspondingly would reduce by 50 per cent. That was without doing any detailed evaluation of the age, the quality, how dense the stands were and those sorts of things, which obviously need to be looked at through a management plan. That was a very high level indication of the likely proportional change.

Dr GOODWIN - What will get to? Will we get to a point with this process? By the time we come to debate this bill, will we know what the demand is, and how much is available and in what areas?

Mr WHITELEY - As I said before, I think the important decision that needs to be made is: What is the study area for the plan? So, of the 100 000 hectares there are about 15 000 hectares within the World Heritage area claim and that will go through that

particular process. Potentially, up to 85 000 hectares could be part of a study, but that is not yet determined. That would rely on all of the areas within the proposed reserves also being studied, other than what is in the World Heritage area claim. That is a decision the signatories need to make before they conduct the process for the management of the land.

Mrs TAYLOR - It is not going to happen within four weeks.

Mr ANNELLS - I think the precise answer is that it is not going to be ready for when you are debating this. We need to find a mechanism, a fail-safe mechanism, that you are going to be satisfied with, and we are going to be satisfied with and the signatories can live with. Once the study is resolved and we can answer those questions with a great deal more of certainty, there will be a geographic outcome, and there needs to be a mechanism to deal with that. That is a bit of a sticking point, which I think needs to be overcome.

Dr GOODWIN - The celery top pine supply is a fairly important issue. Where are things with that - do you know what is available at the moment, assuming nothing changes in terms of new lockups?

Mr WHITELEY - In the immediate term, for current people's businesses - because Forestry Tasmania has been asked to avoid harvesting old growth mature type forests, the supply has almost dried up at the moment. That is now being reviewed to some extent and some areas that had been in contention have now been scheduled for harvesting, so there will be a supply of celery top log we will be able to harvest over the next few months.

Dr GOODWIN - Do you know roughly what that is?

Mr WHITELEY - We are looking at somewhere between 100 cubic metres and 200 cubic metres. Prior to that time, there was an expectation there might have been about 20 cubic metres produced. This is one particular harvest coupe in the Huon, which has made that difference, and that is our sensitivities to particular areas. This is one particular area that had been on a schedule, and was then removed, but because it has already been roaded it has now been put back on, so that will help tide people over to some extent in the next few months.

We have also suggested a schedule of harvest coupes to the signatories for the following two years and they are considering that at the moment, because there is an overlap with the areas that are sought for reservation. So they need to determine whether they wish to pursue that harvesting schedule or not.

Mr ANNELLS - On that issue, however, we have to be careful to get the balance right between supply and demand and that is an equation driven in part by price. This material is truly scarce and it is special. I think it is fair to say that for many years Forestry Tasmania has subsidised the cost of specialty timbers and it has been incorporated in the cost of harvesting for sawlogs generally - roading costs and these sorts of things.

Nobody wants to see the demise of specialty timbers boat building - you only have to go to the Wooden Boat Festival to see that - but at the same time, if it is made available at

too cheap a price, then people will use it for the deck on their summer house. So we have to be careful to not squander what is a finite resource over time.

Ms FORREST - Are you reviewing that, is that what you are saying?

Mr ANNELLS - This plan needs to review that. In asking the question, 'What is the demand?' - the demand is infinite, if the price is the same as an alternative. So there is a big issue here about pricing it right, so that those people who really need it are prepared to pay for it and the market is paying a reasonable price, otherwise it will just get squandered on decks and other stuff that does not matter.

Ms RATTRAY - We heard that they were paying market price, that they were paying a reasonable price.

Mr ANNELLS - It is a bit like beauty, I think. Market price is in the eye of the beholder; it is what is reasonable, and I am sure that they would see it as reasonable. But my advice has been that in no way has it covered the cost of actually producing it; so it is a problem.

Dr GOODWIN - One final question, on that take-or-pay clause of Ta Ann's contract, in not enforcing that, has there been any financial impact for Forestry Tasmania that can be quantified?

Mr ANNELLS - Yes, but again to come to that number, you have to theorise that we could have supplied it. If they had said, 'We'll take it', could we have actually supplied it? We may or may not have been able to do so and what is the cost to us? Yes, there was a theoretical amount but equally there were other things that Ta Ann gave us in return that in fact have helped our financial position. I would rather not go further than that in open testimony but -

Dr GOODWIN - Can you provide that information in some other format, then?

Mr ANNELLS - Of course, if this committee were to require it, we would provide it. I am not sure it actually takes anybody very far because of all the negotiation we had with Ta Ann and the fact that it is only in place until 30 June, which is another three or four months away, and all bets are off then.

CHAIR - We need to come to a conclusion with this session if members wish to have lunch.

Mr HALL - I have more questions but I need my lunch more.

CHAIR - I thought you would. Gentlemen, thank you very much. We appreciate your return and we will suspend until 2.15 p.m.

THE WITNESSES WITHDREW.