

**THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE TASMANIAN FORESTS AGREEMENT BILL 2012 MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON TUESDAY 22 JANUARY 2013**

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**Mr JOHN MAKEHAM PATON**, CHIEF EXECUTIVE OFFICER, AND **Mr JOHN JOSEPH HOLLIS** OF OAK TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** - Gentlemen, welcome to this part of the process. You are probably aware that you are protected by parliamentary privilege while appearing before committees of the parliament. It is not the same outside this process, so if you choose to or are invited to make comments to the media you don't have the protection of that privilege, so you need to be circumspect about what you say in terms of possible challenges that might come your way. With that short introduction we are happy to hear your evidence and then that will raise some questions by the other members.

**Mr PATON** - Just to put it into context, obviously my submission has been circulated and people have been made aware of it, I just wanted to make a couple of points. OAK Tasmania currently employs 161 people with disabilities in its enterprises. That is an increase from the number from the previous year. Altogether we provide a service to somewhere around 350-360 Tasmanians with disabilities in both a combination of what is called Australian Disability Enterprises, which are our business services, and our committee service activities which are run by the state.

We get approximately \$1.65 million from the federal government to provide support to people with disabilities in our business services.

The funding is specifically for the support, it is not to support the enterprises themselves, and the federal government has made it quite clear that if the enterprises are not viable and they fall over, they will not come and rescue them. They will let them fall over and they will tender out the numbers of supporting employees around Australia.

For example, in the case of Oakdale Industries it employs 33 people with disabilities currently. If that organisation closed then the numbers would be tendered out and made available to any other organisation in Australia that wanted to provide a service to 33 Australians.

So it is critical that we have a viable enterprise and we are faced, at the current time, with a crisis. John will speak more directly about what our crisis entails but we cannot afford to operate at a loss. We cannot afford to lose these positions for Tasmanians with disabilities.

Having spoken to quite a number of people across all political spectrums is that everyone gives support to what we do and there is absolute unanimous support. Everyone is very quick to say what a great job we do however none of that is translated to dollars or in any other format. We cannot get access to federal money. They no longer provide dollars unless the funding department, which is FaHCSIA, no longer provides funding to the Australian Disability Enterprises for equipment or any such thing.

The organisation has to fund all its own equipment, which we try to do and we try to seek donations and the like where we can. The businesses themselves, full-stop, have to be viable. That's it.

We are currently employing, across all our services, approximately 108 staff across our ADEs and our day services. That is full-time equivalent staff so it is considerably more than that with a mix of part-time, casuals and full-time and we value our staff. We are an employer of choice as the current economic development has gone through that process of identifying and allowing us to use that title.

We put a lot of effort into our employees with disabilities. We are a registered training organisation as well and so we provide a lot of training on civic one and two, largely, and a whole range of areas to enable people with disabilities to be treated equally in the workplace so they are learning skills as well as learning the job at hand.

My major concern is that due consideration should have been given to treating Tasmanians with disabilities as equally as every other Tasmanian. So there is a sense, in my mind - and this is one of the reasons why I advocate for it - is don't worry about people with disabilities, will be looked after by someone. Who that someone is, I do not know. If they are eligible for day services then that is an additional expense to the state government. If they are unable to find employment in another ADE they are either going to be sitting at home not doing anything or sitting in a state-funded accommodation service which will require additional inputs from the state government.

I am pleading to the government and I have written to the Premier making that plea that when considering how you would treat an organisation such as ours, you just don't dismiss it as a disability service, it is a viable enterprise. It is a large-scale, medium-sized Tasmanian business and we should be treated as such. I think the fact that Tasmanians with disabilities aren't being recognised in the way of saying, 'Gee, here is a business about to go under; we need to develop some sort of package of support to enable those people to be either re-employed or retrained or whatever' - it is just simply: 'Forget about it, Tasmanians with disabilities aren't equal'. I know you probably don't all think that but that seems to be how we are being considered because no-one is saying, 'Come in and here's a package to support a Tasmanian business that is doing its very best, in fact, probably doing better than most, in achieving good-quality services'.

We are a quality accredited organisation. We meet all the quality standards in a range of areas. That is my plea, ladies and gentlemen, to treat us as equals. Thank you.

**CHAIR** - John, you mentioned that John Hollis would go into the detail of the impact of this process which we are considering on your business.

**Mr HOLLIS** - Members, thank you for the opportunity to present here today. Oakdale Industries have been a participant in the disability sector, as John said, for many, many decades and as part of that we have been manufacturing timber products and processing timber for about 40 years now, starting off many years ago from effectively a respite area which for some of our people with supported needs we are there to give parents or guardians or whoever a bit of a break, to a business where we are today as a multi-

million-dollar business. Last financial year we had revenue of \$3 055 000 and this can all be seen in our annual report, so there are no issues here.

One of our major focuses is to bridge the gap to independence and to empower our people with special needs to have the opportunity to become equal and valued citizens within the community. To do that, at Oakdale Industries we actually supply training support, human support, individual support, social support and community support for our people with special needs.

Specifically on the performance of our ADE, I want to touch on the importance of our having native timber resource available to us. Out of our sales by product last year, 84 per cent of that was indeed products which we had manufactured from native timber species; 81 per cent of that was from our Tasmanian eucalypts which are marketed as Tasmanian oak and that was all in appearance-grade products. We don't deal in the structural, the lower grade, the lower value type of products but all the higher value appearance grades such as floorings, architraves, skirtings, door jambs, et cetera.

**CHAIR** - Categories 1 and 3?

**Mr HOLLIS** - Yes, that's where it comes from.

With the demand scenario that we have in place - and I will touch on that a little bit later in my submission - we are finding that the demand is quite strong for our products, and our major concern is that we won't be able to meet that demand for our products because of the inability to actually source the native timber resource that we have in the past.

In the year 2011-12 we required a volume of 6 000 cubic metres of sawlog equivalent, that is, 6 000 cubic metres of sawlog and out of that we would produce about 1 800 cubic metres of finished, high-value-added, appearance-grade products. We very much need that 6 000 cubic metres of sawlog, or sawlog equivalent, to go to one of the sawmillers of our supply so we can get the rough-sawn, kiln-dried product. We are not sawmillers, we are timber manufacturers. If we can't get that, we face a significant disadvantage and the prospect of losing our business and needing to close up purely and simply on the basis of viability. As John mentioned earlier, FaHCSIA with ADEs are not very flexible in supporting businesses that are not viable, and rightly so. We would love to go to any type of government and say, 'We don't need your funding, we can be viable in our own right', and that's one of our objectives.

However, we are not in a position to do that at this point. Should the volume come back to 137 000 cubic metres, what it will mean for Oakdale Industries, in my best calculation at this point - and that can change from day to day and week to week, as you would understand - is that 65 per cent of what we currently get will not be available to us because our suppliers would either take exit packages or decide to exit the industry or not have wood. The other 35 per cent we purchase from one of our suppliers, McKay Timber. We are pretty confident, given normal commercial and market conditions, we will be able to maintain around 35 per cent of the resource that we have now, which will effectively mean 65 per cent additionally of our business that we wouldn't have, so we would need to replace that in some way, shape or form. Let me suggest to honourable members that if anyone takes 65 per cent out of your business you're going to struggle to survive and at that we would not have a viable business.

**Mrs TAYLOR** - Can we ask you why will 65 per cent disappear? Why can't you get it from somebody else?

**Mr HOLLIS** - Because it won't be there. At 155 000 cubic metres, which was the original volume, by bringing it back to 137 000 cubic metres someone has to miss out on that 18 000 cubic metres. We are very concerned that, being down the lower end of the food chain, we are not going to be able to get that timber.

**Mrs TAYLOR** - Don't you just commercially buy it?

**Mr HOLLIS** - No.

**Mr PATON** - We don't have contracts to purchase all of it; we spot-purchase. That makes a difference because unless you have a contract to purchase you get pushed down the chain.

**Dr GOODWIN** - Or the price goes up. Is that the other issue?

**Mr HOLLIS** - Yes. To answer your question, do we buy on a commercial basis? Yes, we do. However, if that 155 000 cubic metres comes back to 137 000 cubic metres and other sawmillers, who are also processors and competitors, are they going to give us their wood when their machines are running at 70 per cent capacity when they run their own 100 per cent capacity? That is a real issue. The other 65 per cent I am talking about that we source from a number of suppliers, they have indicated to us - and some of those come from country sawmillers - the likelihood is they will take an exit package. Right at this moment, if the number comes back to 137 000 cubic metres, we would expect to lose 65 per cent of our resource.

**Mrs TAYLOR** - Have you talked to your supplier of your 35 per cent and said, 'Could we up that percentage?'?

**Mr HOLLIS** - Yes, I have, and they haven't said no. However, they've said that they need to ensure they have enough material to go through their own manufacturing processes. If that means they have any surplus after their own manufacturing needs, which up until now they haven't and unless they can increase their sawlog intake, I wouldn't expect them to because they have their own markets which they are currently putting their own product into. My understanding is they have high demand for their product at this time as well. If there is surplus, we may get it, but if there is not surplus - what we have been taking in the past is certainly there for us, but there are no guarantees of anything other than that requirement.

**Mr DEAN** - And you need a guarantee of supply.

**Mr HOLLIS** - We do, we need a guarantee of supply, and for our customers as well.

**Mrs TAYLOR** - But you could possibly look at a contract with somebody?

**Mr HOLLIS** - Provided someone has got the volume to deal with. We have spoken to just about every saw miller on the island who has capacity to supply our needs to our

requirements and we still come back to the issue where we believe we are going to lose 65 per cent of our resource should 137 000 be the number. That is where we are right at this moment.

**CHAIR** - It might be productive to let John conclude his presentation and then I have got Vanessa and Jim with the first questions after Adriana.

**Mr HOLLIS** - Just as an indication we hear a lot of things about the demand for our Tasmanian products declining. We certainly have not found that at Oakdale Industries. Over our five-year history we have had some quite positive growth.

We did take a reduction last year and our sales number reduced 5.33 per cent in the year 2011-12 from the previous year. We made a strategic decision not to become involved in price reductions due to dumping of product into the marketplace by one of our competitors. That cost us around about a quarter of a million dollars worth of sales and there are reasons for that.

If we look back over our five-year trend it has been very positive back from when we had 7.5 per cent growth. In the year 2010-11 we had 16.7 per cent growth and as I mentioned in the year 2012 we had a five per cent reduction. You can see that for our business we had strong consistent growth over the last five-year period and we have records going back further than that which shows it is even more consistent than that.

Over that five-year period Oakdale Industries as a division has actually made a net contribution to Oak Tasmania, our organisational head, of some 3.47 per cent on sales. The 3.7 per cent equates to some \$424 000 going to our corporate services for funding for people with special needs, which are higher and can't contribute to the ADEs. That is a little bit of the detail there.

Additionally I mentioned earlier on that 84 per cent of our product comes from native timber species and products we produce from that. A market breakdown says that nearly 65 per cent of that goes to the Victorian market so we have a net income stream coming into the island rather than going off the island.

Also additional to the social outcomes that we have and our value status outcomes that we have with our employee group we also contributed something like \$1.975 million to the local economy with our supplies and indeed we had a \$558 000 wages contribution to our employees as well within Oakdale Industries in that 2011-12 year.

You can see we are a significant operation and we have been able to demonstrate over a long period of time that we are a viable operation if we are allowed to have the tools and resources to maintain that viable operation. If we do not have the tools available to us and what we are talking about here is the tools as far as native timber resource is concerned then we will need to restructure our business very significantly or decide whether the business is a viable operation and/or close it down.

I have spoken about how as an Australian disability enterprise and as a business unit we have had consistent growth. It is interesting to put that into context of demand as well and I read the HIA economic group do only starts for the year 2011-12, which is what I

have spoken about. Our major market, being Victoria, who has 64 per cent, had a 19.4 per cent reduction in housing starts in that same period.

The Tasmanian market, which the other 35 per cent goes to, had a 24.7 per cent reduction in dwelling starts. These numbers are from the HIA economics' group data.

You can see that our business unit has had some pretty consistent growth and despite the 5 per cent reduction in sales in the 2011-12 that needs to be taken into the context of the market dwelling commencements reducing 19 and 24 per cent respectively in our major markets. That is a real positive for us.

We have spoken about money and the viability of our business, but let me suggest to the committee that there is more to this than just money, it is about people. It is about the social values of our people with special needs and/or disadvantage. It is about creating a process with people with special needs to ensure they feel valued in what they do and can contribute in a positive way to the community, to ensure that they are empowered. That empowerment comes by way of having job to go to, from having work mates that you see on a day-to-day basis and talk about footy and girlfriends and everything else that goes along with that. I have to say to the committee that it is an absolute pleasure to see the smiles on the faces at Oakdale Industries whilst they are working with this timber product.

People have said, John, you can retrain, there will be money for retraining and stuff. That is all well and good for some people but for those with special needs it is not as easy as that. It is very important to understand that it is not just about the money but it is about the value of the people who are involved.

At Oakdale Industries we look at the viability of our business, which is very important, but part of the duality is that our reason for being is that we ensure that we look after our people by ensuring we have a viable business unit. To ensure that we have a viable business unit we need the tools and the resource to do that. We have some very unique people involved in our organisation but we are really concerned that we will not have the tools, from a point of view of our native timber resource, to continue our operations.

In conclusion and John spoke about the link between FaHCSIA and our business units and FaHCSIA has some key performance indicators that Australian Disability Enterprises need to consider and we need to work to. One is that the funding, as a percentage of total revenue, must be 40 per cent or less. Right now at Oakdale Industries, we are at around 12.5 per cent. Out of our \$3.055 million of total income, \$385 000 of that comes as federal funding. That represents 12.6 per cent. If we lose that 65 per cent and we cannot reduce and yet we maintain the level of workforce with our special needs people, that will work out for us that our ratio will go up to 41.2 per cent and that is exceeding the KPI and that could very well put our contracting in jeopardy with the department as well.

With that, gentlemen, I will close and thank you.

**CHAIR** - Thanks very much, John.

**Dr GOODWIN** - The enormity of what you're saying shouldn't be understated and so I'm going to try to repeat what I think the situation is here and hopefully you'll clarify anything that I don't have correct. I'm understanding that you're saying that unless you can get the guaranteed supply of 6 000 cubic metres of Tasmanian native timber resource per annum, potentially that is going to place not just Oakdale Industries in jeopardy but also Oak Tasmania in its current form because there is necessarily going to be some flow-on impact in relation to Oakdale Industries to Oak Tasmania and the employees of Oak Tasmania.

**Mr HOLLIS** - Fair comment.

**Dr GOODWIN** - The issue is that you need to be able to get it at a price you can afford to make your business commercially viable, obviously. You didn't touch on the issue of an alternative resource. I'm talking about plantation. I don't know whether you want to mention the uncertainty around that.

**Mr HOLLIS** - I am happy to respond to that. With the plantation timbers that we're talking about now being the *Eucalyptus nitens* and *Eucalyptus globulus*, et cetera, we feel that it's not a suitable replacement for what we're doing. In fact it's chalk and cheese. Indeed, we did have some exposure to it with Forest Enterprises when they were developing their eco-ash products at that time. We found that the market rejected it. We've gone to our customers to receive some market intelligence about what they thought of it and the answer was quite simply no. We've done some trials of - about 85 per cent that is waste. That was largely due to [inaudible] and quite severe checking in the product. For the products that we're manufacturing, in appearance, grade, high-value timber flooring products, the properties of the plantation timbers quite simply were just not there. Indeed, the market price of it was just so low that you wouldn't do it; it wasn't an economically viable business opportunity for us. The product wasn't suitable for what was to be done unless it was actually machined down to about a 10 mm section of timber and, of course, that doesn't help when you're talking about a 19 mm structural flooring component or a 19 mm type of product.

**Dr GOODWIN** - In terms of the equipment that you currently have, can you work with plantation timber or do you need - I think in your submission you talk about needing \$2 million to transition to -

**Mr PATON** - One of the opportunities that we see available is to look at alternative ways of processing timber; different packets. Two million dollars is a beginning figure. There's no doubt that equipment is very expensive. To do an alternative to what we're currently doing would require fairly significant investment but also, as I think I did allude to in the paper, we don't know what the market is so there needs to be a whole host of initial market research and we need then to be supported during that period of time while this market is being researched. The work isn't something that you can suddenly say, oh, we'll turn over and do this particular plantation timber product. If the market's not there then you either have to build the market up or train the market to accept the fact that that's all there is.

**Dr GOODWIN** - I suppose the important thing is that you've already got a market and it's a solid market so the question is why would you need to go down this path, only if you can't get the guaranteed supply.

**Mr HOLLIS** - In regard to the plant and equipment, we will need to upgrade it to take advantage of that. Since the IGA has come into play, we have been looking at opportunities for increasing our business as growth, not replacement opportunities, and we still do that. In fact we meet regularly with potential partners, but I cannot sit here and say it's going to happen; there are a lot of ifs and buts and maybes and it wouldn't be right for me to say this is what is going to happen because I just don't know yet.

We are looking at opportunities and some of those opportunities will mean an upgrading to form moulders, for example, for end matches for example and other timber manufacturing machines, which will be able to take advantage of some of those opportunities. We have been very active for quite some time now in looking at opportunities for growth and now it becomes opportunities for survival, effectively, and we've been doing that for a number of years.

We have, indeed, looked at importing timber from South America. We've spoken to potential suppliers in South America. I've been to North America and met with people from a supplier from South America. We can in fact get timber from South America, which has some similar properties, but not the same as, and we have done that on the basis that as the native timber availability drops down in Tassie, we don't want to go to our customers and say, 'Sorry, we can't get it anymore' and we walk away, or we say, 'This is what's happened, we can't give you this, however here is an alternative'. We have been doing that for some time and we still do that.

Interestingly, at the last time that I costed some of this product into Australia, we could land it here in our warehouse at around about a 15 per cent to 20 per cent cheaper price than we could buy it from our friends five miles up the road. But for it doesn't serve the purpose because we want to be spending our \$2 million here in the Tasmanian economy and not in a South American economy or North American/South American economy. Also, we talk about the carbon footprint on our climate, so to be sending containers of wood halfway across the world I suggest only impacts on that rather than mitigates it. That is one area that we are looking at.

We are also looking at other areas and some of that may very well be some engineer-type products as well. Again, I wouldn't like to say that that is a definite starter. It's ifs and buts and maybes, but we are in negotiation. We are hopeful that something can come up, but we can't say that. What we do know for sure at this point in time is that if we are at 137 000 then our ability to source the timber - we are very concerned about our ability to actually maintain our current level, and that is without any prospect of growth and business growth.

Additionally we are going down the path of chain of custody. In fact we obtained our licence for chain of custody just recently. I haven't physically received the certificate yet. Also we are part of a group that are looking for FSC certification. Those are the types of things that we are doing, so we are not just throwing our hands up in the air and saying, 'Bugger it,' we are throwing our hands up in the air and saying, 'What is the solution for us? Is there a solution for us? How do we go about maximising the things that we have available to us?'



Bearing in mind, again, we need to be able to combine the business liability in with our care requirements as well.

**Mr PATON** - I will just add the point too, we haven't been able to access any of the exiting packages that are being made available by the federal government. We just don't fit any of those criteria for what we want to do. If we were given access to those significant amounts of dollars and be able to apply for those dollars, there is no doubt that we could find a solution - not necessarily the handy solution but a solution.

**Dr GOODWIN** - Can I ask about the process and the extent to which you have been able to have your concerns heard by the industry representatives around the table with this agreement?

**Mr HOLLIS** - As in with FIAT?

**Dr GOODWIN** - FIAT - timber communities, the groups who are representing industry and you are part of the industry.

**Mr HOLLIS** - People are very well aware of Oakdale Industries and FIAT, timber communities and others around the table - are aware of it. Some of the contractors are aware of it but not in the same depth as the Forest Industries Association and also the Timber Communities Association.

**Dr GOODWIN** - You have made your concerns known but nothing has come of it?

**Mr HOLLIS** - There is nothing substantial that has given us any confidence that we are going to have enough resource to be able to do that. We have spoken to many people in the legal scene as well. As John mentioned earlier on, the people who are familiar with our business are very complimentary and we have had the Premier, for example, state that we will be okay, we will find something. We have had the Leader of the Greens and the Minister for Disability Services tell us, 'We'll make sure you're okay'. We have had the Greens member, Mr Booth, give us a contact that we are very grateful for but we already knew this contact and suggested that we go and buy our timber from Victoria and pay 50 per cent more for it. Whilst we thank our member for that we don't think that that is viable option.

**Mr WILKINSON** - He told you to go and buy it interstate?

**Mr HOLLIS** - Yes, he told us to get it from Victoria. He actually made a phone call to the supplier for us. This was quite late one evening.

We are working closely with industry and if we actually can get extra resource we will but, again, I don't expect to.

**Mr PATON** - I met with former senator, Bob Brown, just prior to his retirement from parliament and he undertook to advocate on our behalf - and Simon Crean, too - to see if they could alter the agreement to allow 6 000 cubic metres to be made available. That was never going to happen, to be honest, but at least people understood what we were wanting. As I said, we haven't been quiet about it.

**Mr HOLLIS** - It is all right for people to say, 'Yes, we'll make 6 000 cubic metres available to Oakdale Industries', however, we are not a saw miller so that 6 000 needs to go to a sawmill, whether it be a McKay or whoever it may be, and they need additional to that to make their business viable so it is the supply chain as such. That is where we are.

**Dr GOODWIN** - Have you had a specific involvement with the Timber Communities Australia. Have you been a branch president or you are currently branch president?

**Mr HOLLIS** - I haven't had a significant involvement with Timber Communities. I have been a vice president of their southern branch and at the time our president was Brett McKay from McKay Timber and he also took up a position on the board of the TCA. As he took up the board I represented the southern branch as president in the president's meetings, et cetera. I need to advise you that I am no longer involved with the TCA - Timber Communities Australia - because, quite simply, I wouldn't put up with the garbage and the way the board treated their members and I made that known.

I am not one to take my bat and ball and go home and since then I have taken up some other community issues and commitments. I was a great supporter of Timber Communities not signing the document on the basis that it was always assured from the board level that the members would have the final say and it wouldn't be signed until the members actually had a vote on it. That was commendable and I was one of the advocates patting the board on the back. Then we had a vote, which I am pretty sure everyone around this table is aware of and about 80 per cent of the members voted for the agreement not to be signed. Rightly or wrongly 80 per cent of the members voted for the board not to sign the document and the board chose not to do that.

As a result of that initial uproar from the members there was a number of meetings. The chairman of TCA agreed to go back and talk to the board again on the basis of overturning that decision. However, the board chose not to do that again.

I took the view that it showed a great disregard and great disrespect for the members of timber communities and as such I did not want to be involved in it. There are a number of people, who I won't mention here, within that community, including myself, who are looking to set up a community group that will do a similar thing. We will be very conscious of the members' wishes and not perhaps be influenced by other people. I hope that answers that question.

**Dr GOODWIN** - Yes, fairly comprehensively, thank you.

**Mr WILKINSON** - John, you have been involved with the wood industry since you did your carpentry apprenticeship.

**Mr HOLLIS** - Correct.

**Mr WILKINSON** - As I understand it you are saying you cannot continue in the same form if you do not have surety of the wood supply that you previously had. That is number one. That is correct.

**Mr HOLLIS** - Correct.

**Mr WILKINSON** - Two, would it be fair to say that people are saying you will be right just trust me.

**Mr HOLLIS** - Correct.

**Mr WILKINSON** - Three, you want more surety than that and if this agreement was agreed upon by this parliament what would you need? Would you need a special clause relating to the industry for people disabilities or alternatively would it be only, do you believe, in the 155 000 cubic metres still being a figure because that was the figure arrived at by the IGA or alternatively some other cause.

**Mr HOLLIS** - The crisis we see ourselves in is that issue from 155 to 137. At 155 we would feel comfortable with that -

**Mr WILKINSON** - Was that the same with TCA as well, which you were a part of at that stage?

**Mr HOLLIS** - Yes, that was part of that. I would not want to talk on behalf of TCA but at that time the members, whilst they were not totally comfortable with the whole deal in that they felt they should not give one hectare or one cubic metre back out of the 300 000 which is in legislation right now. However acknowledging that Gunns had the half a bird thing so the balance effectively was business as usual for the others, even though it was going to constrain the market quite considerably, 155 was comfortable and we, at Oakdale Industries was comfortable with that as we would get our 6 000 cubic metres of log equivalent to do what we needed to do.

But then we wanted the opportunities for growth so we were looking at what else we could do to fill that void with Gunns and their production going out of the system. There is a big hole coming in what supply and demand is because the end right stock that that organisation had will be running out in the next three to six months. Some might drip through for the next 12 months or so but there is going to be a big hole.

Whilst the market demand may not have been the 300 000 cut but 250 000, whatever it might be, and now we have only got 137 or 155 there is still a big hole and the demand is there for it. We need to take advantage of these opportunities by having growth potential in our business.

Part of that could very well be if we get the 155 000 cubic metres and we continue on as that, but we are also looking to restructure our business so that in future times, if we need to reduce certain things of native timber, we can take advantage of plantation and lamination and all those types of things.

In addition to this I talk about and we know that the demand is there and we can identify with Oakdale Industries but, for the committee's reference, I am also the chairman of the Australian Timber Flooring Association, which is a national association of timber flooring people - sanders, installers, finishers, manufacturers, distributors et cetera. The Australian Timber Flooring Association has membership just a tad under 600 at the moment. Every three months, I am around the country somewhere, from Western Australia to Brisbane to Tasmania and I am talking to people who are dealing with timber flooring on a day-to-day basis. These guys are telling me, 'Yes, we want

Tasmanian oak, what are we going to do?'. I won't say what they think we Tasmanians are doing at the moment, but all those types of things are about. I can speak quite confidently in saying that the demand for the product is there.

But specifically, for Oakdale Industries, if we had 155 000 cubic metres we would find that we would also be looking to restructure down the track, whether that be in 12 months, two years or three years, we would be looking to restructure our business to innovate with more products.

**Mr PATON** - Just to add onto that. If it did go down to that lower figure, we would then need a significant dollar figure to be able to access something around the \$5 million mark to enable us to reprofile, seek markets and that would be like a three-year program to look at different ways of operating, if we are unable to continue getting access to the resources that John [inaudible]. The worst case scenario is the lower figure but we would then need to access significant dollars.

**Mr WILKINSON** - Can I put this to you, that looking at ways, if it occurs that way, to work within the agreement as it now is or within the legislation, if there was a situation where it was 155 000 cubic metres for a period of five years, with the intention to reduce to 137 000 cubic metres, if in the interim there was all this talk about - because it is pie in the sky at the moment, they are always talking about just around the corner there is this new innovation - but most people in business like yourselves have heard that for years gone by but it never comes about, it is always next-door. But if during that period there were investigations into other industries or other things that can be done with wood, also in your area, that would give you and other players in the market time to be able to continue as you are now. But give that period of five years to look into what is around the corner, if anything at all. Then you have a review in five years' time and just see what is there or whether we are still pie in the sky, which it is at the moment.

**Mr PATON** - It could be delaying the death. The body might be just withering away in that period. It is a hard one.

**Mr WILKINSON** - But you are still getting your 155 000 cubic metres. But you are allowing people to carry on with the money that they might get to do these investigations into what might be another way around it.

**Mr HOLLIS** - I agree and indeed, it is very much in the forefront of our thoughts at the moment. I mentioned earlier on that we had been in talks with some people along those lines, in that if we have 155 000 cubic metres, we would still be looking to the opportunity of growing our business, and in doing that we know that it is not going to get any bigger than the 155 000 cubic metres.

**Mr WILKINSON** - Even though it says 'minimum'?

**Mr HOLLIS** - Yes. Our view is that it won't. In some places of the document it says 'minimum' and then it says 'maximum', [inaudible]. But we believe that 155 000 cubic metres would be the maximum which we could deal with. To grow our business, we need to be looking at innovation and things like that. We are in talks at this very moment to do that. If we had 155 000 cubic metres, we would still be looking to innovate and at some type of restructuring funding for extra equipment to be able to take advantage of

that innovation. In five years' time we could have a reduction to 137 000 cubic metres and hopefully the new product lines that are currently on the drawing board may very well overtake and make up for that 65 per cent we would lose by going down to 137 000 cubic metres. We wouldn't just say 155 000 cubic metres and then in five years have this same argument; we would be saying 155 000 cubic metres and within that five-year period we would be ramping up to have something in place. We would be able to not only maintain our viability but grow our business.

**Mr PATON** - We would need access to additional dollars from other sources; we couldn't fund those equipment purchases ourselves.

**Mr WILKINSON** - Are there any other ways you believe could work within the legislation?

**Mr HOLLIS** - Not that comes to mind, and I have thought about it. For us, the eucalypt at 137 000 cubic metres, and indeed some of the specialty timbers we may not have access to - just to clarify, the 84 per cent I mentioned was timber from native timber species, and 81 per cent of that is from eucalypt and Tas oak and the other 3 per cent is from specialty timbers. That is an issue, too.

**Mr WILKINSON** - With your specialty timbers - blackwood, sassafras, myrtle - is there enough resource in the agreement, even though I understand it's still being worked on, for you to obtain the supply you need?

**Mr HOLLIS** - What is the volume at the moment? I am not sure anyone can tell us. Is it 12 500 cubic metres?

**Mr WILKINSON** - No, the FT modelling of blackwood was from 10 000 cubic metres down to about 5 000 cubic metres. In relation to the other timbers I was talking about, it was down from 5 000 cubic metres to -

**Mr HOLLIS** - I have heard of things such as celery top at 100 cubic metres a year and some of the other species, other than blackwood, at quite low numbers. To answer your question, would those volumes suit us? Yes, we don't use that amount of volume but if we are getting it someone else is not. As a whole specialty timber sector and for the artisans and craft people, if the specialty timber resource drops from 12 500 cubic metres back to 5 000 cubic metres, or whatever it might be, someone is going to miss out on that.

**Dr GOODWIN** - I think it's down to 9 000 cubic metres in total and then there is the breakdown we were given the other day.

**Mr HOLLIS** - Sorry, I haven't seen those numbers. My colleague, Mr George Harris, might be able to help you with that.

**Mr DEAN** - Do you have any connection or involvement with Self Help, the other similar organisation interstate?

**Mr HOLLIS** - In that we are in the same industry and from a divisional level, no. I talk to them but not in any close relationship. From an organisational point of view, we have a closer relationship.

**Mr PATON** - From an organisational perspective, we are both members of Tasmanian Association of Disability Employment Services, so we meet regularly to work out what the issues are and to try to work together collaboratively. They do some specific things. They have been doing stakes, for example, to Chickenfeed, but I think the market has stopped there. Devon Industries at Devonport is a sister organisation, all part of the RCWA originally. Devon Industries has been involved in silviculture activities for many years. I don't think they have gone into value-adding product at any time but they have been involved in the silviculture side of it.

**Mr DEAN** - I think Self Help was at once stage into parks, and they still are.

**Mr HOLLIS** - The products I am aware of that Self Help manufacture are in fact the lower-value end of the timber products, so they're in a totally different situation from us who require kiln-dried processed timber for the high-value, high-appearance-grade type of products. The product range they deal with, as John indicated, are garden stakes, pegs, pallet material, et cetera, which effectively is green, unseasoned timber sawn out of a log which can come from not necessarily category 1 or category 2.

**Mr PATON** - It's a very small part of our business.

**Mr HOLLIS** - We do that as part of our range.

**Mr DEAN** - I take it your order is 12 months in advance and you have to rely on and provide a certain quantity of your product to your buyers. Where are they?

**Mr HOLLIS** - Our buyers? At this point in time 65 per cent of them are Victorian or mainland based and the other 35 per cent is Tasmanian. We do have some that drip off into other areas but it's more about our abilities to supply. Our customers are some of the major customers in flooring distribution in Australia, organisations like Boral Timber, Moxon Timbers and Embleton Flooring.

**Mr DEAN** - Are you contracted to provide certain quantities?

**Mr HOLLIS** - No, we're not. It's a buy and sell scenario and we buy in market conditions and sell to market conditions. We give our suppliers a three-month rolling indication of what our requirements will be and that is based on historical data. For example, we know that we need x amount of cubic metres by size on a monthly basis and we give that undertaking to our suppliers on that basis. As for our customer base, we don't have contracts with our customers but it's buy and sell as the market demands.

**Mr MULDER** - Did you say you had been advised there had been a 65 per cent reduction in supply?

**Mr HOLLIS** - No.

**Mr MULDER** - What did you say?

**Mr HOLLIS** - I said that it's been indicated to us that out of our current supply base there is likely to be a 65 per cent shortfall due to the potential of our suppliers taking exit packages from the industry.

**Mr MULDER** - Okay, so it's a potential 65 per cent shortfall in supply, rather than -

**Mr HOLLIS** - I say potentially; if it goes to 137 000, I suspect it's going to happen. I'm not confident of it not happening, put it that way.

**Mr MULDER** - The reason I ask you is because we have had several people present to us on the fact that the 137 000 would be enough to supply the market and could be achieved, albeit tightly. I am just wondering where you obtained that advice. Obviously you are getting different advice to what we have been receiving from the people who say that 137 000 is enough.

**Mr HOLLIS** - The marketing intelligence I'm receiving from our suppliers - this is from our current suppliers who we deal with - is that if it comes to 137 000 and there are exit packages available, some of these millers who are predominantly country sawmillers going through other people, won't have that volume available to them and as such it won't be available to us. It may be available to other suppliers but it's not available to our suppliers if they take an exit package.

**Mr MULDER** - Okay.

**Mr HOLLIS** - We currently have a range of six different suppliers. Those who supply us with approximately 65 per cent of the volume have indicated that there is a high probability of their not having the wood to supply us.

**Mr MULDER** - You will be pleased to know we have an amendment proposed at this stage to up that to 155 000 because that is what the IGA said; however, the fact is that the signatories to this agreement would contradict you and say, 'We can say it is enough to supply what there is to supply', so I guess that is a point of difference and I will pursue that with others.

In relation to supply and your statement that the globulus and nitens were not up to the mark, basically is it the regnans that you need to fuel business?

**Mr HOLLIS** - Eucalyptus delicatensis, Eucalyptus obliqua and Eucalyptus regnans are the three eucalypt species that make up the Tasmanian Oak brand name. The plantation being Eucalyptus globulus and Eucalyptus nitens, the tests that we have done have been predominantly with Eucalyptus nitens. Eucalyptus globulus, which is blue gum, we find is suitable for decking material, some flooring and appearance-grade timbers, but it is quite difficult to work on from the processing point of view.

**Mr MULDER** - How much of your proposed shortfall could be sourced, say, from private forests, or does that depend on whether the sawmillers go?

**Mr HOLLIS** - One of the things we are currently talking about right now is that we have a number of proposals we are working through at the moment to source some product from private forest and that links in also with my comment earlier about going down the FSC

certification process. I can't sit here and say to the select committee, 'Yes, we're going to get another 1 000 or 2 000 cubic metres or whatever it might be from private forest', because we quite simply don't know that. Is it possible? Anything is possible but I can't sit here and have confidence that we will get the volumes we need from private forest.

**Mr MULDER** - You raise FSC certification. How important is that for you in terms of your market going into the future?

**Mr HOLLIS** - FSC certification is very important for the point of market access. We find these days that a lot of the specifiers and architects are calling for certified wood and FSC is the pinnacle. We are currently covered by AFS but we see that as an issue of allowing us market access and development for growth through that market access and we believe that by giving FSC it will enable us to do that.

**Mr MULDER** - So you would see that, for example, as one of the reasons we perhaps should be supporting this agreement, given the fact that that's what it's aiming at?

**Mr HOLLIS** - That is one part of it.

**Mr MULDER** - Bearing in mind that your issues are on the supply side and the volume.

**Mr HOLLIS** - Certainly from an FSC point of view it is a big tick from me.

**Mr MULDER** - I am a bit of woodworker myself and have built a few houses and things, and I find myrtle to be an absolutely brilliant product. For a while back in the 1970s and 1980s Risby's was pushing myrtle for the same things as flooring. Is there much market demand for myrtle, given the fact that it used to be one of our major exports?

**Mr HOLLIS** - Indeed, Tony, being an old fellow, I am a product of the Risby family - not directly. Mr CA Risby mentored me when I first came into the manufacturing sector and I worked for Risby Forest Industries for many years in marketing product, both domestically and internationally. We used to run some myrtle and even have myrtle for timber framing and those types of things.

**Mr MULDER** - In Zeehan after the fires my aunt's home was rebuilt out of myrtle framing.

**Mr HOLLIS** - These days myrtle is still in demand but more so for the more higher-end artisan craft products. There are some flooring-type products but they are very high end and good value.

**Mrs TAYLOR** - I think we've covered it but I want to explore it a little bit more. It seems unlikely to me, because it's taken so long for the agreement to have got together, that we are likely shift the 137. I know there are people who hope that we might get it back to 155 but, personally, it seems unlikely to me that it will not be seen as a breach of the agreement and therefore it may yet fall apart.

Like and unlike some other people on the committee, I am also hugely optimistic about innovation and future products. I know what you're saying; it takes time, but it seems to me that you are exactly the kind of organisation - because of the nature of who you are and the fact that people will want to support you and you have promises of government



support because of the nature of your workforce - that could help to progress an innovative industry. You have talked about manufactured wood, laminated timber or whatever. We have heard from Forestry Tasmania that they have, for instance, developed Hardlam as a manufactured timber product.

We've seen it; it's in there; it's in the Forestry building showroom. It's a wonderful product. Currently it's being made in China because there is nobody here who can do it. The reason there is nobody here is that we don't have security of supply, so there is no investor who wants to invest money into actually developing a little plant here to do it. If we had peace in our forests, whatever that might be, then technically speaking one would think the investment climate might change and there is a ready-made developed product that is ready to go somewhere. Are you not exactly that kind of business? And it wouldn't take five years -

**Mr PATON** - That's exactly what we are and it would take three years, to be honest. There is a lot of market development as well; even though an organisation like Forestry Tasmania and John's organisation have been actively marketing Hardlam and we've been in constant contact, it still requires a dollar input -

**Mrs TAYLOR** - Yes.

**Mr PATON** - Which would require government funding. If there was any way that we could access a significant amount of government dollars, by way of a forest agreement or however, then there's no doubt that we would be in a strong position to talk to someone like Forestry Tasmania or any other innovator to progress creative new ideas. We are right into creative new ideas. John has been very active in developing alternatives to the industry because -

**Mrs TAYLOR** - As Vanessa has already mentioned, there is money in this agreement for innovation and I actually don't want us to start off from scratch when a lot of the stuff is already done and just requires investment to be put in. One would think you could just start up.

**Mr PATON** - It is a matter of putting a case to whoever and being that significant partner but we don't have the dollars behind us to be able to enter into those agreements. Certainly, we're in the process of developing business cases for a whole range of things but you can only get so many resources to put into doing these sorts of things without actually having an outcome in mind. I think it would still require us to be supported and sustained for at least a 3 or, as you say, 5-year period. That's expensive. If there were some guarantee of funding to enable it to happen, that's possible. If you're saying that it goes right down to the 137, then it's going to put in great jeopardy one significant part of our organisation. If there was the anticipation that some creative new activity and development was going to happen and there was funding to support it happening, that is sustaining.

**Mrs TAYLOR** - Absolutely, and looking to the future of the industry. Part of the big problem -

**Mr PATON** - When one realises - reality says that things are going to change and we can't ever guarantee -

**Mrs TAYLOR** - An organisation like yours actually has the capacity to be at the forefront rather than to be followers; you could be leaders, just because of where you sit socially. Part of the problem with the sawlog industry, which is what you're really talking about - category one and three - is not the sawlogs or the availability of that; it's what happens to the rest of the product and what happens downstream. That's exactly what the Hardlam and pellets and all the other industries are looking at because we can't survive just on sawlogs; we have to be able to do something with the rest of the forest product.

**Mr HOLLIS** - If I may just make a comment with regard to that. I have mentioned a few times here today that we have been in discussions with a number of potential partners to look at innovation. With a number of those, we have actually needed to sign confidentiality agreements.

**Mrs TAYLOR** - Okay.

**Mr HOLLIS** - I am not going to break confidentiality agreements other than to say that we are looking at all opportunities that are being put before us to not only maintain but in fact grow our business.

**Mrs TAYLOR** - Fantastic. Good, thank you. I look forward to hearing news, then.

**Mr FARRELL** - John, on the point you made that you need 6 000 cubic metres per year -

**Mr HOLLIS** - Sawlog equivalent.

**Mr FARRELL** - Right, okay. I am just working out roughly the figures and I have not had Jim check them yet. The average log truck is about 30 cubic metres so that equates to about 200 log truck-loads of timber a year for your -

**Mr HOLLIS** - Do not know.

**Mr FARRELL** - It is a substantial amount of timber.

**Mr HOLLIS** - Yes. That is actually based -

**Mr WILKINSON** - That sounds like my maths - a substantial amount of timber.

**Mr HOLLIS** - That is actually based on the fact that, in the last financial year, our sales were for 1 800 cubic metres of actual finished product.

**Mr FARRELL** - Right, okay.

**Mr HOLLIS** - So given the scenario of around about a 30 per cent recovery out of a log, then the volume would be around about 6 000. It could be arguable that that 6 000 in fact could be 8 000 depending on the quality of log. If the quality of log was heavy in the structural grade which we do not have, then that 6 000 could very well go to 8 000.

**Mr FARRELL** - The other amount is the waste, I assume, is it?

**Mr HOLLIS** - From 6 000 to 1 800?

**Mr FARRELL** - Yes.

**Mr HOLLIS** - Yes.

**Mr FARRELL** - What do you use that for?

**Mr HOLLIS** - We actually do not process the saw logs. We are not saw millers; we are actually timber manufacturers so we buy in from our suppliers and our suppliers are saw millers who actually take the logs in and break them down into whatever the product is.

After a period of air drying, kiln drying and processing and reconditioning et cetera, they actually supply it to us as a kiln-dried, rough-sawn product. Out of that kiln-dried rough-sawn product, we actually manufacture it into a finished valued product. IN answer to your question about what do we do with our residues, we do a number of things with our residues. We sell what we can, predominantly to horse trainers or garden suppliers.

**Mrs TAYLOR** - Are you talking about sawdust?

**Mr HOLLIS** - Garden people, or sawdust and hardwood shavings. We do not have any green shavings so it is all dry shavings, of course. Indeed, we used to sell some to the brickworks for the heating of their boilers.

However, when K&D chose to close their brickworks, we quickened up an innovation we were doing. We had an innovation of doing pellets and briquettes for quite some time but with the closure of our market for our shavings or the large proportion of that, we actually are commissioning a briquetting plant at our Oakdale Industries site.

We generate about 1 200 tons a year of kiln-dried, dry residue. In fact, only in the last week have we finished upgrading for power to come into the site at a cost which the board approved of - it was just on \$100 000. That gives us the capacity to actually value our residues on site -

**Mrs TAYLOR** - Excellent, good.

**Mr HOLLIS** - - into a heat-generating briquette.

**Mr FARRELL** - In relation to what Tony was talking about with the FSC certification, we have had other witnesses who have said how important that is, but we have also had the TCA and a couple of other groups saying that if the agreement does not go through, then there are going to be a certain number of saw mills that go out of the industry. There are already a number of contractors out of the industry at the moment. What sort of future impact will that have on your business and suppliers if there are fewer saw mills over time, just through natural process?

**Mr HOLLIS** - That is our big concern and that is why we are here. That natural process, if those saw mills are going out of business - which you have suggested you have had evidence to say is the case - that is our very concern because those saw millers whom you are saying are going out of business are probably some of the saw millers who are actually supplying us with that 65 per cent of wood that we are talking about.

**Mrs TAYLOR** - You are saying to us that you are going to lose 65 per cent approximately if this agreement goes through. The alternative is that if it doesn't go through a number of them are still going to go to the wall.

**Mr HOLLIS** - Yes; that is what was indicated to us. That is correct.

**Mrs TAYLOR** - So you might still have the same issue.

**Mr FARRELL** - I wondered if you had looked at it from that side of the equation as well.

**Mr HOLLIS** - The indications that we have had are that if it was at 155 000 we actually wouldn't lose the resource that we've had, but it is quite probable that some people will make decisions to go, particularly if there are exit packages. But whether that 155 000 to 137 000 then actually goes back in for reserve or whether it actually goes back in for redistribution to other sawmillers perhaps like our current suppliers, our real concern is our people. Second, from the 155 000 to 137 000, that 18 000 cubic metres takes us out of the equation as far as the probability of us not having the resource that we need to maintain our business that is without the opportunity for growth of our business. Our growth component is going to come through innovation and those types of things which is what you expect.

**Mr GAFFNEY** - You mentioned earlier that your business set-up model is set up so that you run at a profit, which is understandable - you are a business - and because of that you obviously have national competition policy guidelines that you have to adhere to. I was pleased to see that you mentioned that there were other similar organisations statewide who may have a different task or product, whether it was Devonfield or whatever, so they are in the same boat. When Bob Brown suggested to Simon Crean that 6 000 cubic metres be set aside for Oakdale and you know and we know that that was just baloney. You can't do that in the legislative framework. In legislation, a sunset clause and whatever for a single business when you have other similar entities out there all competing in the market is not going to happen.

I think out of all of this, what you are saying is that through this process of the TFA, regardless of the amount of cubic metres set aside, whether it is 137 000, 155 000 or 300 000, you guys are actually priming yourself into a position where you want to change your business to innovate for the future product that is down the line, so you just put it here on the table that if there were some funds available, which could be through the TFA, you are in a prime position to do that. I don't think you want any special favours within this process other than the fact that you want to put up front that you are on the table and you want a deal in this space, knowing that it is not going to be a handout just because you have people with unique abilities, because you are trying to run a profit-making business, as you should be. I think that if there is any way within this process that can be catered for, that is terrific but it may not come through legislation, I wouldn't have thought.

**Mr PATON** - That is really the point of my being here, to say that we are a player and we want to position ourselves for the future and we don't want to stick back in the past. If we can possibly move forward with support - and we do need a lot of support to do it -

and for any way that you guys can position a finding that suggests something else to our advantage, we would be really appreciative of it.

**Mrs TAYLOR** - In a sense you are really saying that the assistance package that has been offered to other parts of the industry to restructure is what you also want?

**Mr PATON** - I am saying that.

**Mr HOLLIS** - I would like actually for there to be both. To answer your question, we don't expect anything special. We expect just the same opportunities as other people. We buy on a commercial basis; our business is run on a commercial basis -

**Mr GAFFNEY** - You have a quality product.

**Mr HOLLIS** - Yes, we have a quality product.

**Mr PATON** - We don't market our products as being made by people with disabilities anyway; they stand alone.

**Mr HOLLIS** - When people actually say to us that, 'Yes, you'll be all right; we'll look after you', I immediately think to myself how can someone go and tell our supplier that you have to supply that timber for a market. That opens up a new ball game. I was pleased also that you talked about handouts because in my notes here I have, 'We don't want hand-outs; we actually want opportunities', and by getting the combination of native timber resource and looking to innovation, which we are quite happy to do and are doing, we see that as our way forward.

**Mr WILKINSON** - In relation to that, if at this stage we reduce the figure to 137 000 cubic metres, would you be able to cope with that if you got money for R&D? Alternatively, are you saying, 'We need to stay afloat while we look at the R&D to see whether we are able to cope or not; therefore we need some transitional period'.

**Mr PATON** - There's no guarantee about the R&D or other innovative products we are looking at. We certainly need to stay afloat, and when I say 'stay afloat' that's not a one-off \$100 000 grant. It is fairly significant ongoing support we would need in order for us to explore those opportunities. I think the opportunities are there, but I think it is fair to say the market hasn't embraced them as we would want them to. The opportunity is there for that to happen.

**Mr WILKINSON** - What do you believe an appropriate transitional period is so you can stay afloat, as opposed to going broke and finding something new that you have lost all your resource to continue?

**Mr PATON** - If it went through at 137 000 cubic metres and we couldn't source 65 per cent of our resource, that would knock us pretty quickly. Depending on the air-dried stock that's out in yards - we are talking of a 9 to 12 month period for the air-dried stock to come through the process - given that, there is a 12-month period. Once that ran out we would need to be able to gear up into the other innovative products we would want to do. I suggest to you that would take a bit longer to gear up and ramp up to take advantage of

not only the 65 per cent we would lose but also to ramp up growth opportunities as well. We are looking at a 24-month period.

**Mr HOLLIS** - I have put a minimum of three years that would be sustainable from that point of view.

**Mr WILKINSON** - So as far as you are concerned, and I suppose it would be the same with other industries, if there was to be this reduction you could say, 'That might be the case but I have to see what the R&D concluded. Therefore I would need to be able to have guarantee of resource for a period of three years to wait and see what the R&D says', knowing that you and other industries are going to do all you can to find some other innovative method.

**Mr HOLLIS** - Your comments earlier on with regard to the five-year period doing the transition, that sits comfortably with us.

**THE WITNESSES WITHDREW.**

**Mr TERRY EDWARDS**, CHIEF EXECUTIVE OFFICER, FOREST INDUSTRIES ASSOCIATION OF Tasmania (FIAT) AND **Dr HANS DRIELSMA**, DIRECTOR, AUSTRALIAN FOREST PRODUCTS ASSOCIATION, WERE CALLED AND RE-EXAMINED.

**CHAIR** - Gentlemen, there is no need to be sworn because you have already taken the oath, so we will get straight into it. I suspect Terry, in the first instance, might wish to speak to the submission you forwarded to us.

**Mr EDWARDS** - Before I do, Chair, just a couple of brief housekeeping issues. When we last appeared before the committee on 15 January, we took two questions on notice at the request of the committee. I have responded to the questions on notice yesterday afternoon to the secretary to the committee. I have received an indication from the secretary that was received. I assume the answers have been circulated to the inquiry members.

The second issue is that we have now lodged, as FIAT, a written submission yesterday afternoon and I would like to table a copy of that.

**Dr DRIELSMA** - I am assuming you have received the AFPA submission also, which we submitted last Thursday.

**CHAIR** - We have, thank you.

**Mr EDWARDS** - To give the members of the select committee the greatest opportunity to interrogate, particularly Dr Drielsma, I will very briefly outline our submission.

I have now tabled the FIAT submission, which deals with a broad range of issues arising from the agreement itself, the background history to FIAT reaching agreement to sign that document, all of which I have taken the committee through at our last appearance, but I wanted to formalise that. I have spoken about some of the durability issues arising from the agreement and how we perceive those.

But most importantly, for this afternoon at least, I wanted to deal with the issue that we set aside last time we were before the select committee and that is the whole of government submission which was tabled the morning we appeared last. I have included in our submission a number of issues around the proposed amendments that were embraced by the WOG submission and along with a number of other issues that continue to cause us some concern, arising from that submission, including sovereign risk, the cable harvest subsidy, the institutional arrangements and some issues around the signatory and stakeholder council.

I have put submissions in writing in respect of those issues, which I understand may have been circulated to the select committee in electronic form yesterday evening and, as a consequence, I will not through them unless asked to.

So far as is relevant in respect to the amendments arising from the whole of government submission, it is our proposition to the select committee that they are inconsistent with

the signatory agreement, the Tasmanian Forest Agreement, and as a consequence we will be urging the Legislative Council not to accept those amendments.

When we were last before the select committee we indicated that our first blush reading was that they were inconsistent with the agreement of the signatories and we undertook to explore that more fully, which we have now done. I have set out in our submission the reasons why we believe they are inconsistent with the agreement and primarily that is because of the removal of a key durability test that was to apply after the passage of the bill through the parliament and the tabling of a protection order in the parliament, including the after 15 sitting days that was allowed for the parliament, that is both Houses, to approve or otherwise that protection order.

When industry negotiated this agreement we were conscious of the structure of the bill that had been tabled in the Tasmanian parliament in June of 2012. We had very clearly in our mind the architecture of that bill and it is only on the basis of that key durability test, and some of the issues that were required to be reported in that key durability test, were we able to agree to the eventual structure of the agreement, including a very large, up-front tranche of reserves which we may otherwise not have been in a position to agree to.

A couple of the issues that were specifically to be reported as part of that initial durability report were the issues relating to the short term residues issues, including reporting on access to the Triabunna woodchip mill, the Burnie wharf and/or the short term woodchip stockpiling arrangements specifically listed in clause 30 of the agreement. There was also to be an agreed transition schedule included as part of that first durability report. That is clearly set out in clause 13 of the Tasmanian Forest Agreement. That is the transition arrangements around how we will get out of the 'to be protected or reserved' forests and move to a supply regime over time that is outside that area. That could take anything up to about 18 months and I know you have heard that evidence from others including a couple of the ENGOs.

That agreed transition order, and I keep stressing agreed, was to be included as part of that first durability report. That opportunity has been taken from the signatories by the government amendment and we don't and can't accept that.

Clause 41 of the Forest Agreement deals with the preparation of the durability report prior to the tabling of the initial protection order and, again, before subsequent permanent legislative reserve orders. I stress - prior to the tabling of the initial protection order. That durability report now is physically impossible to achieve, particularly one that has statutory underpinning. We can do one as I heard the government representatives discuss with you this morning, but it has no meaning and no statutory force, and that is unacceptable to us. The whole nature of our agreement was around a statutory reporting on durability to the parliament, the tabling of that report in advance of various things happening. That has been taken away from us, at least in respect of the first durability report, and we cannot endorse that approach.

I have advised government directly that that is our position. I have also advised them through the media that that is our position, so it won't come as a shock, but we cannot accept those recommendations and we will be urging the Legislative Council, through this Select Committee, to reject that amendment for the very reason that the government



itself has advanced on so many occasions. That is they want the Legislative Council to pass this bill as is, not to amend the agreement, not to cherry pick the agreement, but to keep it intact and they, themselves, have done the opposite. They have changed the agreement by their proposed amendment, or have sought to, and that is not acceptable to us.

I don't intend to go through the rest of the submission. I think there are some meaty issues there that might come up as part of the discussion, including sovereign risk and I suspect the issues around the cable harvesting subsidy, which we would like to advance further. Hans and I will have a view that we will want to put to you in respect of the institutional arrangements. I heard that part of the government office's evidence to you this morning, that that issue has a time frame of four to six weeks. I think Norm McIlfatrick said that they are taking a whole range of issues into account. I didn't actually hear him say - I'm partly deaf - but I didn't actually hear him say that it will be in accordance with clause 55 of the Tasmanian Forest Agreement and that continues to cause us concern because that is a key durability issue for industry and has been throughout the negotiations process.

I think Hans outlined it very, very well in his evidence on 15 January and subsequently in his written submission, which I have partly replicated in mine by plagiarism. This test is about the existing forest manager employing existing practices, procedures and planning arrangements to produce a particular outcome. If you put another manager in charge of the same area of land with a different mindset, you are going to get a different answer. We cannot have confidence what that answer will be. We do have confidence what the answer is under the very, very stringently modelled processes that Forestry Tasmania went through under third party independent auditing throughout and therefore we can have confidence in that. This is a very finely toleranced wood supply outcome. We do not have anything to play with. It is a very key durability issue and one that we will be saying very firmly that we expect will form part of the outcome and we will be looking for the government - I'm particularly directing this to the Leader - that the issue will be brought into force in the way it is described in the Tasmanian Forest Agreement which has been endorsed by all of the signatories.

I have attached to our submission correspondence from the Premier dated, from memory, 5 October, that deals with this issue in part, which followed a meeting between the Premier, Nick McKim and industry signatories, or who were to become signatories; we weren't at that stage but we were certainly the industry negotiating group. At that meeting it was made very plainly known to all of the industry signatories by both the Premier and Mr McKim that in the event we reached an agreement over the restructure of Forestry Tasmania, it would be highly influential in the outcome of that process.

We have subsequently submitted the content of clause 55 of the agreement to Norm McIlfatrick as the chair of FTTOC and made him aware that that is the outcome and sought an opportunity to speak with FTTOC. With the intervention of Christmas and people having breaks and certain Legislative Council select committees and things has so far prevented that meeting from taking place but I am sure it will.

**Mr WILKINSON** - In what capacity was Mr McKim there?

**Mr EDWARDS** - As Leader of the Tasmanian Greens. My understanding was that initially the meeting was to be with the Premier. The Premier came into the room and asked if we objected if Nick McKim came in as Leader of the Greens but I guess also as a member of the forestry cabinet subcommittee and therefore he was there in that capacity. I indicated on behalf of the signatory group that was there that we had no objection and he may as well hear first-hand what our views were rather than hearing about them second-hand from someone else.

**Mr WILKINSON** - What about minister Green?

**Mr EDWARDS** - He was out of the state at the time. He had intended to be there but hadn't been able to make it. I wouldn't suggest there was any conspiracy involved in that at all. I think it was a normal, everyday, run-of-the-mill meeting we have with governments from time to time. The Premier asked us if we had any objections and indicated quite clearly that if we did she would not invite Nick into the room. Frankly, I've got no objection to talking to Nick McKim; I'm more than happy to tell him what I think.

**Dr DRIELSMA** - I think Terry has covered it well. You received our submission. I assume members have had access to that which reiterates some of the evidence we gave last week as well as also supporting what FIAT has put in regard to the proposed amendments. I think Terry's position has articulated ours as well and I'm happy to take questions.

**CHAIR** - Terry, can I take you first of all to the management of the production forests? You went to that a few moments ago. It's a significant component of the TFA. What consultation have you or Hans had from the Forestry Tasmania Transition Oversight Committee as they are now considering what their recommendation will be to government as to the future structure of FT?

**Mr EDWARDS** - I think, Chair, you may have missed the part of my earlier submission where I suggested all questions were to be directed to my colleague.

*Laughter.*

**Mr EDWARDS** - The interaction with FTTOC is an interesting question. We have been invited to have interaction with FTTOC. That invitation came from the Premier and I'm fairly certain it's included within attachment A to our submission. If not, it's certainly been issued at least verbally but I thought it was in writing. We have been fairly heavily involved in negotiating a somewhat historic agreement and for a fair bit of the time these two things were running in parallel. Frankly, we were having meetings going all day and night and the opportunity to progress that was limited.

The approach we took following our meeting I referred to a moment ago with the Premier and Nick McKim was to accept the invitation that had been made to us to try to progress this issue with the ENGOS and to provide an outcome of all signatories on the issue of the institutional arrangements associated with the management of the production forest land. That was our objective. It was a difficult task; as members of the council will be aware, it was an issue that forced FIAT to suspend its involvement in the negotiations process, along with AFPA and TCA, and I think a couple of the contracting

organisations might also have withdrawn over this issue. It is fundamental and critical to durability.

We re-engaged at the request of the Premier, with some reluctance, and I think that is encompassed in a response letter that might be attachment B to our submission, where I indicated it was only with some reluctance that we were rejoining the negotiation process. We accepted the invitation from the Premier and set about trying to convince the ENGOs of the wisdom of our way of thinking about this as opposed to theirs, which was diametrically different.

It is fair to say that clause 55 of the new agreement records that at the end of the day we successfully convinced the ENGOs of what the structure of the public forest manager ought to be. It is as we have said continually for the last three years, and that is that it is to be as it is set out in clause 55. I will not try to repeat it off the cuff because I will get it wrong and as soon as I do that someone will hold me to it. It is clearly recorded in clause 55 and that was signed off by the ENGOs. I know there was questioning of Vica Bayley and Phil Pullinger last week about that issue and whilst they expressed disquiet about that outcome they nevertheless said, as I recall, that they would back in that component of the agreement, although they may try to change some of the cultural issues in Forestry Tasmania. Nevertheless, they accepted that the institutional arrangements are to be as per the agreement. That is our agreement.

**CHAIR** - Given that that was the predominant cause for FIAT's withdrawing from the process at the time, is there still potential for further withdrawals, notwithstanding you have said you are back in the agreement? If it is not delivered in the way you have just described is your desire, does that hold the potential to destroy the process of the agreement?

**Mr EDWARDS** - Mr Chairman, I guess the important thing is that we have an agreement that has been signed and you can't unsign it. What we have done is put in place processes to test the efficacy of the implementation of that agreement. I was at pains to stress this last time I appeared, I have stressed it a number of other forums as well and I will stress it again now. One of the key durability tests is whether governments have effectively implemented the agreement in accordance with its terms. If the Tasmanian government was to come up with a different outcome on the issue of the institutional arrangements for the production of forest management, we would regard that as a key breach of durability and report accordingly to the Tasmanian parliament, assuming that that opportunity is restored to us.

**Dr DRIELSMA** - If I could add to that, Mr Chairman, I think that is really the nub of the problem we have with the amendments currently before us which would remove that initial durability report. It was clearly in our minds that one of the key elements of durability was the ability to test whether certain things have been committed to by the signatories and government at the time the protection order goes in. Certainly in our minds, if this question of institutional arrangements have not been clearly committed to and settled, we would find it almost impossible to suggest that durability had been delivered. The amendments remove the opportunity for us to test that particular element, as well as others, but that is a key element that in our minds should be committed to prior to any protection order or equivalent going ahead.

**Mr EDWARDS** - The government has indicated, as I understand it, that it endorses the agreement as a package. That has become a policy issue for government, which it is endeavouring to translate into law effectively by way of this bill and other mechanisms. Some issues can't be covered by this bill. That includes clause 55, along with all others. It is therefore something we have agreed and government has agreed. We expect government to deliver on its commitment to implement our agreement, and that includes clause 55. It will be a key durability testing issue. It is the equivalent of not delivering the funding or not doing other things that the agreement requires government to do. That is what we will be looking to do in those durability tests.

**CHAIR** - On exactly the same issue, we have been advised by the government representatives that they met with some of the signatories last week, where this proposition of the amendments was put to you. You would have reacted as you have reacted now, I presume.

**Mr EDWARDS** - No, I am calmer now.

**CHAIR** - Given you are calmer now, what was the government representatives' reaction when you were not so calm?

**Mr EDWARDS** - I think they might have blushed. I guess I was reasonably forceful in putting our view, and I am sometimes renowned for that, but I don't think they were left with any misunderstanding about our position. Initially they didn't accept that what we were saying was correct and they tried to proffer the view that the Minister for Resources couldn't direct the interim signatory council - the Forest and Forest Industry Council mark 2 - to prepare a durability report. Our view in response to that is that would have no standing in a statutory sense, which is what we've always insisted be the case. We might just as well write a fairytale and submit it to the parliament for a bit of light night-time reading. They have gone away to consider their position. I have had further dialogue with the government since that day - Wednesday last week, incidentally - and they are currently considering what other mechanisms there may be to achieve the same outcomes without having the downside of the removal of the durability test.

I have indicated to them I am prepared to work with government to try to achieve the overview outcome they have, which is trying to pick up some time that may be lost by way of the institution of this select committee. That is one of the concerns they have used in their submission to justify what they are doing and we are prepared to work with them on that. I don't think there is any need for extensive delay but we will not be prepared to agree to a proposition that removes that key durability test. Whilst we will engage with them in good faith, that will be our headline position going into that dialogue and it will be our position coming out of it also. In the interim, this amendment remains before the select committee and, as a consequence, I felt it appropriate to make very clear to the select committee our position on it, which is we do not support it and we would urge the Legislative Council not to support it.

**Dr DRIELSMA** - My take on that meeting was that after some time I think they reluctantly but eventually recognised and acknowledged they had significantly underestimated the impact of those amendments on durability. I thought there was some commitment to go away and remedy that situation. At least that is what I took from the meeting.

**Mrs TAYLOR** - That's what they said to us this morning as well.

**CHAIR** - Given FIAT's withdrawal from the process last year and subsequent return, what were the circumstances precisely which brought your return? I have had it suggested to me, so I will put it to you so it is in the open arena, that you were strongly encouraged or it was strongly suggested to you by Bryan Green that you ought to accept the 137 000 cubic metres and re-enter the process. Is that accurate or even close to being accurate? The second question that then would flow from that: has there been a time during the process where you have felt heavied by ministers or by governments?

**Mr EDWARDS** - I will take the first part of your question first. The answer to that is no, that is not accurate. Our return to the process was in about October of last year. Dialogue around the 137 000 versus 155 000 versus 142 000 occurred in November of last year, well after our return. Our return occurred very shortly after the meeting with the Premier and Nick McKim, which was held on around about 3 or 4 October and which is summarised in the letter - attachment A to our submission. In that you might note that the Premier urged us to think very carefully about any decision we might make that would compromise the government's ability to support industry through the challenges it faces now and will continue to face into the future. I really think that is the extent to which I personally felt heavied.

I have certainly been involved in a number of robust conversations with ministers of two different colours, if I can use that term. Those conversations have at times been strained and I am sure it is fair to say both sides gave as good as they got. I am not shy and retiring when I have something to say, and I have had something to say through this process from time to time.

There have been suggestions that we ought consider our position and we were being told at the same time that the other side of the negotiations were being asked to consider their positions, but this occurred after the breakdown in the negotiations process which occurred later in October - about the 23 October or thereabouts - the day Bryan Green and Tony Burke jointly briefed the media that in their view they were pessimistic that there was any prospect of an agreement being reached. The conversations were certainly robust. Did I feel heavied? I guess that is a matter of opinion and how you might describe things. Certainly there was pressure throughout this process from day one to reach an agreement, but I have never had dictated to me what that agreement ought to contain.

**CHAIR** - Finally on that same thread has it ever been suggested to either of you that if you were to accept 137 000, governments will work towards ramping it back up to 155 000 at some stage?

**Mr EDWARDS** - No.

**Ms FORREST** - Would it be reasonable to say that in a contentious issue like this where you have engaged with government, ministers and departments in the past, often that has robust discussion and that is not unusual?

**Mr EDWARDS** - Certainly not unusual.

**Ms FORREST** - So pretty much normal, run-of-the mill negotiations on a contentious issue.

**Mr EDWARDS** - Yes. I guess the overarching pressure we all felt as negotiators, and I think this would be from all sides, was to reach an outcome. The time line pressures that were constantly being imposed and missed certainly were an issue of concern to all of us. We felt that pressure.

**Ms FORREST** - And the funding threats as well.

**Mr EDWARDS** - And the funding threats. There were all sorts of threats. We went into this process with the specific objective of trying to reach an agreement that we could all live with and which gave us a prospect of having peace in our time. That is what we were trying to achieve. We were constantly, through media commentary and otherwise, by governments and those outside government, being urged to get on with it, reach an agreement, get the deal done. The pressure has been quite intense and it is not just pressure of direct words or threats or implied threats. It is the pressure we put on ourselves for the original, somewhat idealistic, views we took into the process and the views we set ourselves for our goals would be through to the back end of the process.

On FIAT's part, we set ourselves a very firm target that we would not settle for anything less than 155 000 cubic metres of high-quality sawlog. We saw the world implode on about 23 or 24 October, whatever that date was, when Burke and Green advised that no agreement was likely, FIAT and Terry Edwards personally wore a high degree of opprobrium in the public arena for quite a period, including some quite direct commentary by a minister of the crown publicly attacking me and telling me that I would personally wear the blame for every job loss and every business closure occasioned by that collapse in the talks.

I took exception to that but was it pressure? Yes, of course it was, absolutely. Is it outside the norm? No. We are all big boys and we are all playing in the big pond and we can take it. There are lots of bruises, there are lots of bumps and lots of scars but I am sure they are on both sides.

**Ms FORREST** - Is it fair to say that there was pressure from the people out there who were already suffering in the industry with huge debts and no work for the contractors and others?

**Mr EDWARDS** - I have had an enormous number of phone calls from contractors, sawmill workers, truck drivers, foresters and a range of people whom I have never met, who have rung me and wanted to put their version of the world to me - many in tears, many highly concerned for their own future and the future of their families. Some were urging me to get an agreement done so that those things would come to an end. Some were urging me never to sign an agreement because you can't trust these bastards.

There has been a very broad range of pressures, and when I say there has been a lot of pressure, there has been and I have felt it immensely as I am sure everyone in the process has, and I have been something of a contact point on the industry side and everyone who has a gripe or an opinion or wanting to put pressure on us to do or not do anything has come to me because I have been the public spokesperson, for all of my sins. So therefore, yes, I have been contacted by a very broad range of people and many of them I

have never met but I take on board what they say and I try to assure them that we are doing the very, very best we can in very, very difficult circumstances.

**Dr DRIELSMA** - I think if there has been any suggestion or sense that as a result of that pressure we, AFPA or FIAT have taken a view or taken a position other than what we think is in the very best interests of the industry in the longer term, that would be a mistake because it has been a guiding principle and I am quite clear in my mind that both Terry and I have gone through that resisting those sort of short-term time imperatives which have been great and continue now, but at the end of the day we simply try to find what is the best long-term outcome and not be overawed by the short-term imperatives.

**Ms FORREST** - Your names remain on that document forever, don't they?

**Mr EDWARDS** - Exactly. The pressure we felt most keenly - and this is from FIAT's perspective alone and I certainly don't imply that AFPA had the same pressure - was the pressure applied back to us by our markets. That is what convinced us at the end of the day that we were better off with an agreement than without an agreement. Our markets made it reasonably plain - and I have said this in our submission - that they were unlikely to back us in circumstances where their stores, their shopfronts, et cetera, were subject to ongoing protest activity by koalas and whatever else parading around outside their doors, chaining themselves to beds and the like. That they would not back the industry if that sort of risk to their own brand name was to be experienced in the public arena. That is what we felt most keenly and we reacted to that and the decision we took as an organisation, rightly or wrongly, was that we would sign the agreement and in signing it, as I have said a number of times, we committed ourselves to back it in all the way and we are doing that.

**Ms FORREST** - Can I go to the issue that Paul raised about the durability report and particularly the initial durability report. Do you have any idea how long it would take the signatories to prepare a durability report? How much work are we talking about for the initial one, which obviously probably can't be as detailed as the subsequent ones?

**Mr EDWARDS** - It is a little bit of 'How long is a piece of string?'; it depends on the extent to which things are going to be easy to check off as having been done or not done. If I took an example of the Forestry Tasmania structure issue at the moment, we can neither give that a tick nor a cross. To say the FTOC process is continuing, we can indicate that we have submitted to that process and we can indicate we have been asked speak into that process, but we have not seen a commitment by government, in fact we see countervailing comments by particularly Nick McKim over that issue, wherein the lower House and after the signing of this agreement, he made quite clear that that was an element of the agreement that he would not support. That to us causes questions around durability that we, as signatories, need to tease out. We need an opportunity to have proper dialogue with each other. I wouldn't have thought it was a 24-hour issue; I would have thought more like a week or two if we are going to do our task properly.

Hans is involved in a subcommittee that is working to prepare a pro forma durability report, which I had intended at one point to put before you just so you could see the sorts of things we are considering. What we have done is using KPMG as an agent to assist us - and Hans can buttress me on this - and go through the agreement and identify every commitment we have made to each other, every commitment we have sought from

government and every action that is identified within the agreement and put those into a document that we can go through and either give a red light, an amber light or a green light to - green meaning it is done.

**Ms FORREST** - And comment.

**Mr EDWARDS** - And comment as appropriate.

**Dr DRIELSMA** - The important thing to recognise about the durability report is it is not just a mechanical administrative process. We can talk about formats and ticking boxes and all that sort of thing, but fundamentally it is a mechanism whereby the signatories can indicate that they are still committed to the agreement, that sufficient progress has been made for them to sign off on the next stage, if you like. For industry the first stage, which is the protection order, is the very significant thing.

The question is going to be: has enough happened for us to sit down and say, 'We're happy for that stage to progress'? If things like the institutional arrangements or the rescheduling transition project and some of those issues that are specifically mentioned in the agreement have not been progressed, then we can't sign off. If they have then we can do it in a few days. If they haven't it might be a week, it might be a month or it might be six months until they have been done. We have to look at the durability as a process not as a ticking the box.

**Ms FORREST** - I said that, yes.

**Dr DRIELSMA** - It is actually a reassessment of whether we are prepared to commit and particularly that first stage, which commits 80 per cent of the environmental outcomes and we need to be absolutely satisfied that the preconditions have been met.

**Ms FORREST** - Effectively, is the decision regarding the FT restructure, and thus the land manager arrangements, imperative to be determined before we deal with the protection order and, depending on where we end up with the government amendment, certainly before the legislation is debated, and if it is to go back to what it was and it becomes a protection order later before the protection order is considered?

**Dr DRIELSMA** - Certainly in our view that is an absolute requirement for the first durability report to go through positively.

**Ms FORREST** - The comments made this morning, and I assume you were listening from another place, by the departmental officers that that is happening and they expect to have some sort of decision within a short time frame, certainly before parliament resumes -

**Mr EDWARDS** - Four to six weeks.

**Ms FORREST** - Well, they were suggesting before parliament resumes, certainly before the bill is dealt with in whichever form it ends up coming back. Obviously we will be seeing feedback, or we'll see you in the media giving feedback, if it meets the requirements of clause 55 or not. Is that a fair comment?



**Mr EDWARDS** - I think I said in my opening submission that on this particular issue, the actual reforms of Forestry Tasmania are unlikely to be completed in that time. However, we would expect that a recommendation would be forthcoming in the time frames that Norm McIlfattrick spoke about this morning and we would expect - we can't necessarily expect that Norm's committee will recommend directly in line with clause 55. They are not the government. It is not Norm and his group that have signed up to this. What we would expect is an announcement from government - and I deliberately directed this at the leader when I said it because he has the fortune of being in the room to listen - at the earliest possible time that the clause 55 commitment will be carried into effect. Now if it is not, that to us is a negative durability reporting issue.

**Ms FORREST** - And it will be reflected in the durability report.

**Mr EDWARDS** - It will be reflected in the durability report should we get the opportunity to write one.

**Ms FORREST** - Going on with the durability report aspect, we heard from the departmental officers this morning about the ongoing negotiations with yourselves in regard to the amendment proposed and supported by the subcommittee of Cabinet, or Cabinet itself, I think, and the current lack of an initial durability report that will get other mechanisms to try and facilitate that. I do not know where you will land with that but that is an ongoing discussion, obviously. I and other members, during the debate prior to Christmas, felt it was important we had the opportunity to consider individual loss or at least have the opportunity to comment on them prior to them being presented as an accept or reject the whole lot, only because the risk of rejecting the whole lot was too great in my mind on the problem with one, potentially, or two out of 295.

In my mind there are some benefits in having the amendment as proposed by the government in that it becomes a schedule of the bill, where we can look at one individually and not have to potentially reject the whole lot, but I see the need for a durability report upfront. So I guess this will be an ongoing piece of work.

But if the proposed government amendment is rejected, as we end up back with the bill more or less as it is with possibly some other amendments, does that present timing challenges for some of the people that perhaps are impacted adversely by ongoing delays in access to funding and things like that? How do you see this could be progressed in a way that is timely?

**Mr EDWARDS** - I certainly accept what you say about the competing interests that are trying to be addressed by the amendments attached to the whole of government submission. I have been very conscious of those and it has not been an easy decision to come to the select committee and ask you to completely reject that because I saw the merit in the Legislative Council having access at least to the information that would be contained in the protection order. Whether that needs to be the subject of being coupled to the bill is perhaps a question for ongoing discussion that I will be having with the government. Potentially there are other solutions but I do not want to necessarily discuss them here and now because there is some sensitivity around what some of those outcomes could be.

**Ms FORREST** - I accept that.

**Mr EDWARDS** - Not just from a government or industry point of view but I need to discuss them with our colleagues from the ENGOs because I do not want to spring surprises on them by public statement. I do not think that is fair. I do think there are some potential solutions that are going to require good will from a range of people including the Tasmanian government.

I certainly hear what you say about the issue about the amendments. I too, as you know before Christmas, was concerned about the accept or reject nature, given that you may have only had, as legislative councillors, one small question mark over one of the allotments of 280 000-odd or whatever it is. That seemed to be overkill but it is what we signed up to by the same token.

**Ms FORREST** - That is why I am asking you, Terry, because I think it is important. You signed up to this accept or reject, and there is a hell of a lot of risk for both sides if we accept the whole lot and that upsets some in the mining industry or some other industry perhaps or we reject the whole lot and then upset all the ENGOs.

**Dr DRIELSMA** - Those two issues are not necessarily linked as they have been in the amendments. There are two separate issues considering the nature of the parcels and the idea of the durability reporting. They are not necessarily linked.

**Ms FORREST** - I am trying to establish, Hans, that I still believe there needs to be some sort of process where there can be a discussion before we accept or reject the protection order as a unit, that any individual lots that may be, in our view -

**Dr DRIELSMA** - I understand that and they have been linked in the amendment propositions but if the amendment propositions were put in a different way there no necessary reason for those two issues to be linked.

You could achieve that outcome in a different structure that does not diminish our durability.

**Ms FORREST** - Yes, and we had another process that I proposed in the unit as well.

**Mr EDWARDS** - The original architecture of the bill was that the bill is a facilitative arrangement. It puts in place a process for the making of reserves. It did not make any reserve per se. There was a subsequent process involving a protection order and a durability report leading to the actual making of some reserves and protecting some areas of land. In fact, the 504 000 hectares would be protected through the protection order and the effect of that would be to bring immediately into reservation, 385 199 hectares, I think it is, as tranche 1 of the reserve making process. You are right, at the moment that is put forward as an accept or reject and that is what the original architecture would require.

You could, as an example, stick almost precisely to the original architecture and have this as a facilitative process. That is, the bill itself is about the facilitation for a process for the making of an agreement. But there was no need for the protection order to remain as an accept or reject proposition if the government wish to proceed with an amendment that opened that up for Legislative Councillors and themselves, in the House of

Assembly, presumably, to review the content of that protection order. That was clearly available. You could decouple those two issues and not impact on the durability reporting requirement and the architecture that led to certain things having to be completed and reported upon before the protection order was brought to the parliament.

I still think there are other ways, ways outside of that too, that one I just discussed is not the proposition that I want to take forward with government, I have a better one.

**Ms FORREST** - I am sure there are a number of ways to skin a cat, so to speak.

**Mr EDWARDS** - There are many ways to skin a cat.

**Ms FORREST** - The proposal that I had before, as amendment, was never tested or formally discussed, was to enable a period of time for motions to be put and debated in our House. If members, individually or collectively, decided there were areas that perhaps should have a different value or purpose.

One of the concerns was that the agreement was for accept or reject almost. If that process were taken to enable minor tweaking of purposes and values, for example, would that undermine the integrity of the agreement? That is an issue for us to consider.

**Mr EDWARDS** - The agreement itself did not adopt and accept or reject methodology. The architecture of the bill, which formed the backdrop to our negotiations and therefore was part of our thinking when we negotiated the outcome, was in our knowledge and therefore we used that as the guiding point about how we would construct our agreement and we did it in full knowledge that there was an accept or reject methodology around the protection order. But equally, there was a clear intent that there be a protection order that would be preceded by a durability report. We had it all laid out and I do not know how many times we went through this on the white board, as signatories, of laying out potential timeframes, what things would happen in what order and how we could make sure that there was complete symmetry on the process so that we were not getting in front of ourselves at any point in time.

There are other ways of doing this. As you say, there are many ways of skinning a cat. I would like to explore some of those. I am not in a position to explore them today, for the reasons I advanced before. I think it is unfair on other people and I would be more than happy to appear before the select committee again, at a later time, once we have further explored those issues with government and the other signatories to see if we can reach a solution ourselves. It would be so much better for everyone if the signatories can agree again with each other about a way through what is quite a difficult issue. It is probably a more difficult issue for the Legislative Council to deal with. It is easier for the signatories in as much as if we disrupt our own agreement to a minor extent, that is our lookout. But if the Legislative Council do it, it is someone external imposing an outcome over and above what we have negotiated and that would cause, I presume, hiccups.

**Ms FORREST** - That is why I put that question.

**Dr DRIELSMA** - I will make a couple of points. The first is that the agreement that we entered into was silent in regard to the purpose and objectives of the reserves. To the extent that you have said that is an issue, there may be an issue in regard to -

**Ms FORREST** - It is an issue for us.

**Dr DRIELSMA** - Yes. We were silent on that. All we have indicated is we agree that these areas should be placed into reserves where logging is no longer carried out. Beyond that, there is nothing in the agreement and that seems to be an area open and -

**Ms FORREST** - Working to a process everyone agrees on. That is fine.

**Dr DRIELSMA** - Indeed. In terms of the structure of the durability, the key issues for us were that there would be a separation of the bill from whatever mechanism protection or reservation and that the durability reporting would be done after the bill was passed so that the durability report was done in the context of the known outcomes of the bill. The separation of those two and some gap, however long or short that gap was, was an important element of being able to judge partly the durability under the outcome of the bill itself and the fact it would be a disallowable instrument, which would allow then the parliament to consider those matters and make judgments accordingly.

**Mr EDWARDS** - The reason it attracted us as being a disallowable instrument and giving the parliament an option if the durability report was negative is that they could do something about it. Under the alternative that was loosely discussed this morning by the officers of the government, where there could be a durability report presented that didn't have statutory power, it does not give us that. Parliament must either reject the entire bill on the basis of a non-statutory durability report provided at the direction of the minister that has no standing in the parliament itself. That is a worse outcome in many respects because your only alternative is to reject the entire bill under those circumstances. We are saying the disallowable instrument, which was the protection order, enabled you to say, 'No, we are not convinced durability exists because January justice is still running' or maybe the government hasn't honoured its commitment to reform Forestry Tasmania in the manner we have agreed it ought to be.

**Dr DRIELSMA** - Except the bill allows for those matters to be remedied.

**Ms FORREST** - Yes, but the other side of that coin is that I and other members were concerned about not being able to look at the lots individually and clarify the intent of the purpose and values particularly for which they were being reserved. It is finding a way forward in that, and I accept what you're saying.

**Mr EDWARDS** - We are committed to trying to find a way through it but we haven't found it yet.

**Dr GOODWIN** - I want to go back to clause 55 and get some clarification about that because I am somewhat puzzled by what you are seeking out of that clause. Is it the case that what you want to see is FT as the production forest manager? Is it as simple as that?

**Mr DRIELSMA** - We have been very careful not to say FT per se. The proposition is based on principle, the principle of the structure rather than some view about existing

arrangements or entities; it is the structure. What is important about that is it is a commercial entity; it is independent with an independent statutory board with fiduciary duties, so it makes its judgments based on commercial fiduciary considerations not day-to-day political determinations directed by a minister. It is our concern that that entity also can stand behind the sort of modelling approach that has been taken by FT. To the extent that it is FT, that would give us more confidence in the sense that it is a known entity - we know the policies, structures and modelling and we have confidence in the outcomes of that. We are assuming that if there was a commercial entity structured in the way we have said, they would come to the same outcome.

The principle is about the structure and confidence we would take from that structure as distinct from some alternative arrangements variously that have been looked at, such as a departmental structure where the decisions clearly would be based on political considerations of the day rather than commercial fiduciary responsibilities or a situation where there is a separation in the management of the land from the management of the forests, which is another model that has been put forward. That would give us no confidence because then judgements or management decisions around that land could be taken by an entity other than the commercial fiduciary entity which would impact on the way the resource could then deliver. So the fundamental element is that it has independent statutory fiduciary duty and has full control over the land and the forest that is being managed, and that any community service obligations that it is required to undertake are fully funded so that they don't impact on the commercial outcomes.

**Dr GOODWIN** - When you say you were very careful not to specifically refer to FT, why was that?

**Dr DRIELSMA** - Essentially because of the sensitivities around those we were negotiating with. There is a perception by some, as Terry has indicated, that there is some need to address cultural issues, or something. I mean it's not something I accept and I don't think we necessarily accept but there certainly were sensitivities around that so they were the words that we came up with because fundamentally, our concerns about the principles of the structure.

**Dr GOODWIN** - I suppose this is my fear, really. It seems like another case of a pulp mill or the Gunns pulp mill; these words are being carefully selected because of those concerns. So, what does that actually mean in practical terms if this committee comes back and says, 'Yes, FT should continue to be the production forest manager'. What does it mean to those other signatories who have concerns about the cultural issues within FT?

**Dr DRIELSMA** - You have to ask them.

**Dr EDWARDS** - From our point of view, our negotiations were deliberately about structure. That's the issue that's on the table from the URS report. Bear in mind, the URS report option two, which has been adopted by government, specifically says that the management of the land goes into the Department of Primary Industries, Water and Environment but the management of the forests on that land and the production portion of those forests could stay with Forestry Tasmania or with the forest manager. We saw a very clear disconnect between that and a genuine and workable solution.

We've seen this almost replicated in precise terms in what happens in Victoria which, to be fair, has been a complete disaster. The government in Victoria is in the process of unravelling it because it is such a mess. It has detracted substantially from industry confidence; it has increased substantially the sovereign risk of processors in that state. We weren't prepared to accept that; so what we set out to do was to describe the structure of what we need in a public forest manager. We deliberately called it a public forest - the name of FT could be changed to anything -

**Dr GOODWIN** - I could be but -

**Dr EDWARDS** - The name is unimportant and it certainly was to us - 'a rose by any other name'. From our point of view, we simply wanted to describe the structure of the organisation that would have control of the lands that are important to us going forward, which are the permanent timber production zone lands. We've done that. If you said that that was the outcome and you continued to call it FT, we're not going to be unhappy about that. There are some in the community who might be but I think they are driven far more by some ideological, political perspective than reality. It doesn't matter what you call it -

**Dr GOODWIN** - But what are you talking about? Who are you talking about?

**Dr EDWARDS** - The ENGOs, for example.

**Dr GOODWIN** - So, the people who are around the table - the signatories.

**Dr EDWARDS** - Not just them. There is a very detailed report that was produced - I think it was sponsored by Environment Tasmania; if not, I apologise to them for saying that it was - called Levelling the Playing Field. Some or all of you may be aware of it. It's a very detailed analysis from an ENGO perspective about the reforms needed to the public forest management system in Tasmania. If you read that, it's quite a myopic assassination of Forestry Tasmania and I think, quite frankly, it was wrong in a very significant number of respects. It's that sort of thinking in the community that's led the government down the path of having to make this decision to commission URS to review Forestry Tasmania. It was that coupled with the reduced activity in the industry occasioned by market change, the high Australian dollar and a whole range of other things which has affected the viability of Forestry Tasmania which, in turn, has left it vulnerable to governments making decisions to review it.

Once a government business enterprise is requiring government subsidy to remain afloat, then it inevitably leads itself open to being reviewed. We accepted that there was a need to have a look at the structure of the public forest manager. We had an input to that process through URS and we did recommend some change, not this change.

**Dr DRIELSMA** - The overarching principle that is embedded in this agreement, apart from the specifics around the structure, is that there would be institutional arrangements that give confidence to the stakeholders. We have made it very clear that the nature and the structure of the forest manager is a really important element that gives the industry confidence and it is a durability issue.

If down the track the letter, if you like, of clause 55 is delivered in some way but the intent is not and there is no confidence by the industry because of some other way that that has been implemented we would be expressing our concerns in the durability reporting. While we think the clause 55 articulates the structure that will deliver that the principle that drives it is that there are institutional arrangements that give confidence to the industry and if the result is that they do not then we have got a problem.

In our discussions with the ENGOs and our agreement they understand that. They understand that part of the trade off in terms of the new reserves is that they do not pursue an agenda that undermines the confidence that the industry would have in regard to the management of the production forest estate. That is a change from where we were because there were agendas running to try and undermine our confidence in that resource and they understand that we have to have confidence in that resource if this agreement is going to be durable.

**Dr GOODWIN** - What are the cultural issues that they are concerned about?

**Dr DRIELSMA** - I have no idea because I do not agree that there are cultural issues but people suggest that they perceive that there are.

**Mr EDWARDS** - I am only suggesting cultural issues as it was specifically stated, on *Hansard*, by Vica Bayley in his evidence last week. The only suggestion I can make to you, I think you have got Vica back on Thursday, is maybe you could ask him what those cultural issues are.

**Dr GOODWIN** - You do not know what they are?

**Mr EDWARDS** - No. We can try and guess what they are but they should speak for themselves. I have enough trouble speaking for myself.

**Ms FORREST** - Really? I have noticed.

**Mr EDWARDS** - I have enough trouble making sense.

**Mr WILKINSON** - You talk about your durability report you have said should we get the opportunity to write one. Is there a concern that you will not be given that opportunity that you believed was always going to be the case in relation to this agreement? Or alternatively is it just a turn of phrase you have mentioned a couple of times?

**Mr EDWARDS** - No, it is not a turn of phrase. It is a bit of an oblique reference to the WOG amendments process, which does remove that first key durability report. I have traversed that in a fair bit of detail in our submissions. I won't go back over that but it does remove the key durability tests on the transitional schedule, which is absolutely fundamental and particularly on the short term residue solutions process that is specifically to be done as part of the first durability report, which is to be before a protection order is brought to the parliament. It is that durability report at the moment that would be removed if in your wisdom you elected to accept the government's proposed amendments.

**Mr WILKINSON** - It is a new question but it is in relation to residues. It has been a bit of a sleeper at the moment but residues to me are an issue, a real issue. Can I get an update as to what is happening with those residues? Triabunna it would seem is not going to open. No matter what is said it would seem that there has never been any intent to open that so what is happening in relation to residues?

**Mr EDWARDS** - I heard the evidence of the government officials this morning indicating, I think their words were, Triabunna was problematic. I won't take it any further than that.

What I will say is as part of our negotiations process we met twice with Alec Marr and one of those occasions was in conjunction with Graham Wood in which we tried to explore possibilities and what might be needed to get them to open Triabunna as an export woodchip facility, albeit it for a short term period, and basically that issue is still alive, problematic it may be but alive, but depends on the passage through this parliament of the reserves. I hope I am not misquoting Alec Marr when I say that from his point of view one of the fundamental important issues is the World Heritage nomination issue. Until the deliberations of this committee are concluded and this issue is debated and dealt with through the parliament I suspect Triabunna will remain an issue. We are negotiating earnestly with Tasports to try to obtain access to the Burnie wharf. That is an ongoing issue and there are commercial elements involved so I will not go into any detail, even if I knew them which I don't really anyway, but that is ongoing.

We are dealing with the Tasmanian and commonwealth governments over issues of trying to take residues from the south of the state to the north possibly using rail as opposed to road for a whole lot of road safety-related issues and social issues associated with large numbers of trucks moving north. So we are looking at using rail as an option and I guess to some extent the coincidence of chairmanship between FT and TasRail might assist us in that regard perhaps.

**Ms FORREST** - He needs to look in the mirror and have a good chat to himself, both chairs.

**Mr EDWARDS** - He can look in a mirror and have a good chat and sign the agreement from both sides.

That is progressing but in the meantime the residues issue does remain a very, very significant problem. The unfortunate fire at Ike Kelly's sawmill to some extent was exacerbated by the significant story she had of slabs of off-cuts on his mill premises. That is not directed as a criticism to anyone, it is just a statement of fact. He has been unable to sell his residues. He has not been in a financial position to pay the costs that others are paying to transport those residues to other places in the state for processing so he has just stocked them on site. He is not the only miller doing that and those risks remain particularly in the fire environment we have currently in Tasmania, so there is the fire issue.

Out in the bush we have major issues of build ups of residue logs that can't be sold as sawlogs, they can't be sold as peeler billets and they may not meet the grade for export peeler logs in which case they are just being left in the bush or located in different places and stored and are progressively degrading. But, more importantly, it prevents us viably going through the necessary integrated nature of forestry in this state where from any particular coupe you will get a range of logs from very low quality to very high quality



and you need to be able to use all of those logs productively to be able to pay all of the fixed costs and make the operations viable.

So if you cannot recover from your harvest your pulpwood log and your export peeler log and/or your rotary peel veneer log for Ta Ann, eventually all fixed costs are centred on your high-quality sawlogs and the high-quality sawlog processes cannot afford to pay those sort of costs because the product cannot be sold for that sort of money in the marketplace. We are not price makers in the market, we are price takers because we are a relatively small volume on the Australian market and propositions like doubling the cost of a sawlog into a processor by FT to make FT viable, frankly, don't make any sense because all you do is send your processor broke.

I know the member for Murchison made some comments around this in her contribution in the second reading debate about increasing the cost of products sold by FT to their customers.

**Ms FORREST** - There was another peeler witness last week said the same thing to me, too.

**Mr EDWARDS** - Yes, I heard it. I had the same rejection as when you said it.

**Ms FORREST** - I did tell him, too. Keeping going.

**Mr EDWARDS** - I will ignore the interjection.

This is a critical issue and we are all working earnestly to try to find a solution. We do need the funding that has been committed as part of this process to start the flow until we have a reserves outcome according to the rules put on that funding by the commonwealth government. We are hamstrung in getting too far down the track. We have some commitment to some subsidy support in terms of transporting pulpwood north. We do have some commitments particularly around the cable harvesting coupes where there is an absolute need to remove the low-quality products from the coupe area to be able to do that as part of the cable harvesting subsidy.

It is an ongoing issue and I certainly agree with you that it is fundamental to obtaining a proper resolution and getting an industry back on foot. It requires the endorsement of the environment movement going forward, which is one of the reasons why we have reached an agreement because we do need their support to get these products into markets and we need their support to obtain FSC certification for these products. It is all integrated. Like everything in forestry, which I am sure you are learning from your discussions day in, day out on this issue, everything is interrelated with something else in some way. You remove one of the little cards from the bottom of the pile and the whole house comes down. That is why we have been very conscious to say to people please do not cherry pick because unless you fully understand in quite a detailed way the way those interrelationships work you do create a calamity.

**Mr WILKINSON** - You talk about cards coming down. If you keep the card out of the pack for long enough they do crash down and that is what concerns me about the people involved in the south of the state because it is crippling them at the moment. There has been a lot of talk but not much progress has been made and that is a concern that I have.

**Mr EDWARDS** - That is certainly true. With absent funding it will be difficult to make a lot of progress. A number of my members are in the position you describe. One of them has recently bought a wood chip export facility in the north of the state but because of FSC certification versus PEFC certification there are problems in accessing that site in the short term and we are trying to address those. The more critical issue for us, however, is even if we get the chips to the other end of the state there is still a limitation in a market sense. Unfortunately native forest woodchips are a relatively high cost commodity to produce as opposed to woodchips coming from, say, Thailand and Vietnam that are grown on very, very quick rotations.

They are quite small logs and they get one or two rotations to our one and they do not pay the wages that we pay. They do not have the environmental standards to comply with that we have to comply with with all the costs associated with that so they get a relatively cheap access to the market compared to our relatively expensive access to the market. Also, native forest chips do not have quite as high a yield in a pulp sense as do plantation-grown timbers. So there is a range of factors that are conspiring against us.

If you add to that an overload, the high Australian dollar, all of a sudden you have almost this perfect storm. I have described that in part in our submission when I put some commentary in there around the state of the markets that led us down the path to the making of this agreement. I think we have to pull together all those disparate parts into one place and try to distil them into a codified and sensible way forward and that is what we have suggested in here. Instead of trying to write an absolute outcome on residues which we found difficult to progress we have come up with a detailed process with some fundings, with some expert assistance to try to work out what we can do.

I think the solution is to forget exporting low quality residue products like woodchips. We need to try to find ways and methodologies to process those into a downstream value-added product here in Tasmania to create wealth, employment and alternate products we can sell into the market.

As the previous witnesses were saying to you when I was sitting in the back of the room, that will take some time. It is not necessarily a simple translation. There are options there that include reconstituted wood products and engineered wood products. They are on the table, they are all viable but let us test them and we are testing here not just the environmental sustainability of those things but the marketability and the economic sustainability. There is no point us getting into another situation that might end up being worse than the one we are in currently so we need to make sure we do our work correctly. I do not disagree with the assessment that that is probably a two or three-year process, which I think the previous witnesses were saying.

**Mr WILKINSON** - As a supplementary to that, how long do you think that transition should be? What I was talking about was 155 000 cubic metres for a period of three years maybe, allow it to be 155 000 cubic metres and then have a look to see whether your R&D has come to fruition in relation to finding new ways of having biomass or ethanol or whatever it may be and then being able to go forward from there. What is your view as to that and what it will do with the agreement?

**Mr EDWARDS** - It would destroy the agreement, there's no doubt about that. I said when we appeared on 15 January that we urge the Legislative Council to please not tinker with

the core outcomes of the agreement, being the wood supply outcomes and the reserves outcomes. They are absolutely fundamental and from our point of view and the point of view of all other signatories, we have all committed we will back those outcomes in. We don't have to like them, they are not the best agreement we could have ever dreamt of. I used to have dreams about what this outcome would be and it doesn't look like this, and I am sure ENGOs did too. That said, if we were to change the wood supply outcomes, by definition you would have to change the reserve outcomes because the forests cannot supply that level of product sustainably to allow that additional level.

The more harvest you do the more residues you throw off, the more residues you throw up the more you exacerbate the problem in the short term. In our agreement we have deliberately talked about 'short term', 'medium term' and 'longer term' solutions to the residues issue. I think that's the way we have to approach it. We can't simply say, 'Here's a solution that's going to apply for the next 50 years because markets don't work like that, technology doesn't work like that. We still need some R&D. Tasmanian eucalypt products are very difficult and very expensive to glue because of the nature of the cell structure of the timber. You need a lot more glue than you do on, say, a piece of pine to achieve the bondage and strength you require for reconstituted wood products or even engineered wood products. The technology is there but we need to drive down the costs as well, and they are issues we need time to explore. It won't matter whether we are doing it at 155 000 cubic metres or 137 000 cubic metres. That's not the issue.

I am not detracting from what the previous witnesses said; they were talking about a slightly different question. Their issue is about whether they can purchase sufficient timber from the sawmilling sector for their business. That is not about whether we can access sufficient logs from the forests, that issue is the subject of the agreement. To whom the people who process those logs by primary breakdown sell them is a different question again, and that is a commercial issue.

**Dr GOODWIN** - Terry, I want to go to something in your submission around the decision by FIAT to sign the agreement not being taken lightly and only achieved by a majority decision of the membership. Can you tell me how many members you have?

**Mr EDWARDS** - We have 14 members.

**Dr GOODWIN** - The other point you make is that the FIAT membership along with virtually the entire Tasmanian community, and indeed the Legislative Council itself is divided over this to endorse the agreement. One of the concerns I think along this process is that there has been a perception people have been saying one thing perhaps publicly, but privately expressing reservations. That has created a bit of confusion and angst. I want to ask you specifically about the signature-on-the-coffin issue because it's something that has puzzled me. I want to get some clarification around that from you as to whether you did sign it; if so, why you signed it and what does that mean?

**Mr EDWARDS** - The answer to your questions in turn are yes, I did. Why did I? - you won't find the name 'FIAT' on that coffin at any point anywhere. What I do as a private individual, frankly, is my business.

**Dr GOODWIN** - So you signed it in your personal capacity?

**Mr EDWARDS** - Yes, absolutely.

**Ms FORREST** - As Terry Edwards, citizen of Tasmania?

**Mr EDWARDS** - Yes, as any one of us as a citizen of Tasmania has the right to do. I am appearing as Terry Edwards, CEO of FIAT today and if you want to call me back as Terry Edwards, private citizen, you would probably find it horribly boring.

**Dr GOODWIN** - I don't know, after that answer we might find you riveting. Would you acknowledge that it creates some confusion in the community with people doing one thing publicly as a representative of an organisation and another thing privately?

**Mr EDWARDS** - I don't know, I guess it does. I guess I have always jealously guarded my private life. I have been asked a number of times to stand for various parties for election and I have declined. One of the reasons I have declined is that I don't want to be a public figure and have my private life subject to intrusion by other people, who I think have some right to do that in the context where you put yourself up for election and basically put your life on display. I have never been prepared to do that, and that is one of the criticisms Nick McKim said about me in the public arena, that I don't have a right to have a say on public policy issues because I have not bothered to stand for parliament and open myself up to those subjective criticisms that people have.

I have never been prepared to do that, I am still not prepared to do that, and I am entitled to my private views and my private life. I have them on a number of subjects and I sometimes choose to express them. More often than not I choose not to because people have the confusion you talk about of saying, 'How can you as Terry Edwards, CEO of FIAT, have that view?' Frankly, I am entitled to my views and if I choose to express them I will do so without fear or favour. I am prepared to back up any views I express in a private sense but that's not the context in which I am appearing today but I accept your criticism to the extent it does create some confusion. It's the way of the world.

**Dr GOODWIN** - Yes, it creates confusion but the other issue is if that found its way into the public domain, so that reinforces the confusion.

**Mr EDWARDS** - There are a number of people around this table who assisted in bringing that into the public domain. I think the member for Windermere quoted it as part of his contribution, and that's fine. I didn't have any objection to that and I have not had a cross word with Ivan about that. It was brought to his attention and brought it to the attention of the general public. If the general public is interested in what Terry Edwards does in the privacy of his own home, or elsewhere, then they've got a pretty sorry outlook on life and I'm sorry they are going to find it very boring.

**Dr GOODWIN** - I thank you for clarifying that, Terry.

**Mr EDWARDS** - No problems at all, I appreciate the question.

**Mr MULDER** - When the meeting suspended last week I was on, as the chairman described it, a bit of a roll and I would like to get back onto that roll. A couple of clarifications about the 137 and the 155. A number of times it has been said that is what the IGA said - 137 - but that is not what the IGA said. The IGA said 155 -

**Mr EDWARDS** - Correct.

**Mr MULDER** - and I wonder what scope the committee was given to start negotiating outside the intergovernmental agreement and come up with a different set of numbers for the forest agreement. If so, why do you not now allow the same government the same scope to fiddle with the agreement?

**Mr EDWARDS** - I can say with a fair amount of passion that -

**Mr MULDER** - Is this personal passion or FIAT passion?

**Mr EDWARDS** - This will only ever be FIAT passion as part of this evidence.

With a fair bit of passion I can say that the FIAT position is, has been, will be and always was that we expected the commitment made by the commonwealth and Tasmanian governments, by the Premier and the Prime Minister, to be honoured and that is that the outcome would be 155 000 cubic metres of high quality sawlog, 265 000 cubic metres of rotary peel veneer billets and 12 500 cubic metres of special species timbers, and that the reservation outcome should be of an amount and an area that would allow those volumes to be delivered. That is quite clearly articulated in the IGA, and we held to that position through to about the 23 or 24 August when the ship hit the span. When the ship hit the span we had to evaluate our position and our position at that point was 155 000.

If we had stuck to 155 000 there would have been no agreement. I went to a full meeting of FIAT members and said, 'If we stick to 155 000 there will not be an agreement. Do we think we are better off with an agreement and therefore a compromise from our preferred position or without an agreement and go back to the trenches and start lobbing hand grenades at each other again? The perspective of my members, which, as I've said and it's been repeated to me, was by majority decision of the membership, was that we're better off with an agreement and we're better off with a compromise.

In my response to the question without notice, I've incorporated the without prejudice proposition that FIAT put together on about 2 November, from memory, which talked about what it is that we would be prepared to accept as a solution, as a compromise outcome package and that spelt out a whole lot of durability issues we wish to pursue; it spelt out some funding issues that we thought were necessary outcomes and they spelt out issues around log supply.

We asked, a number of times, both governments to try and re-engineer the outcome that would see the IGA outcome met. It was just not possible. I've said a number of times that the agreement we have reached in our estimation is the best agreement we could reach and still have an agreement. We could have stuck to our guns and we wouldn't be here in front of a select committee talking about 155 versus 137; we would instead be out at the barricades and throwing hand grenades at each other. My members' estimation was that was not the best solution for the industry.

I spoke with a number of people, including federal and state ministers, about this issue and the general perspective given back to us at about that time was that the landscape had changed so dramatically the IGA was virtually non-existent. This was repeated to me

last week by a minister of the commonwealth government that basically he had contemplated the actual destruction of the IGA on the basis that it was so far removed from any realistic proposition that it could not survive. That's the history.

**Mr MULDER** - Is it fair to say that the balance has really been struck between the amount you can get into reserve versus the amount of forest available for harvesting and that's what's leading on the industry side to a supply issue and it then becomes a trade-off; if you want more tonnage, you get less reserve.

**Mr EDWARDS** - That's a reasonable way of describing it. It's largely reflective of the way the negotiation process actually progressed. I said last time we were here that one of the biggest failings of the past processes, particularly according to Professor Jonathan West, was that other people, industry and government, had chosen which areas of forest went into reserve, both as to overall quantum and to which specific forests went into the reserves. We made a conscious decision fairly early on in this process that we didn't want to fall for that trap so we said to the ENGOs, and Hans actually traced it out on a whiteboard and said, at the moment your claim is there and our wood supply demand is there. We need to look at some chunks in the middle to work out where we might be able to find a compromise.

We spent a couple of months going through that and I'm sure Forestry Tasmania got absolutely sick to death with us coming back to their modellers and saying run this through your model; this hectareage with this configuration on this map, what would that produce? We kept going back to the ENGOs and saying it doesn't produce enough wood; you need to compromise further to get the wood supply and that's when we were arguing out the IGA says 155; I'll just use the simplistic 155 instead of all three. We kept saying, the IGA says 155 and you're nowhere near it; you've got to reduce your forest area more and more. Eventually they came back to us and said we've reduced our forest area as far as we can in our estimation in the way that we will be able to carry our constituency and deliver the durability and peace, which is the other side you're trying to achieve in this outcome.

Eventually we got to the position, after we went through what they described as the cellar underneath the basement proposition, where we said okay we believe you; you're not going to move any further. We weren't moving any further and that's where we had the Burke-Green announcement that no agreement was likely; that the ship hit the span. The proposition was discussed, at least with my membership that I described, and we did that unilaterally. We did not do that in concert with other industry disciplines; we made our own conscious decision, as did every other organisation on the industry side. They all went back to their boards and made their own judgment calls about what to do.

**Mr MULDER** - On the residue side of that, you talked about how we've been a woodchipped industry I would suspect for some time in our native forestry - maybe not led, but certainly a substantial proportion of it - and I think that might be what the game changing is.

**Mr EDWARDS** - In terms of total tonnage I would agree.

**Mr MULDER** - Gunns getting out of native forests and things like that, so that's what changes some of those things. You talked about the residues being a long-term solution,

I can assure you that Ike Kelly only departed his house after he was told by the fire chief that an explosion had just occurred up back behind his block, which was almost instantaneous [inaudible] - I think I'm on the record already on *Hansard* as actually warning of this three or four weeks before the fire happened, but let's move on now. Two years, three years - what are these people going to be doing with this residue in the south of the state between now and then?

**Mr EDWARDS** - The agreement contemplates seeking solutions across three roughly defined time frames: short term, medium term and longer term. Obviously we are closing our mind immediately to longer term solutions even though that is the space we would like to be in because that is where we get into the value-adding downstream processing, setting up lignolytic conversion and all these sort of things that I can't even pronounce and certainly can't understand, but I do know that those things exist.

In the short term we need to worry about the situation akin to the Ike Kelly situation which is replicated in the Huon at a mill down there. It's also a problem for the highly automated larger sawmills, such as McKays, where they cannot switch their mill off and it includes going right through and the residues are fed into a chipper. Once those chippers are full if there's nowhere to take them, that's it. We saw it during I think early 2012, where there was a series of proceedings before Fair Work Australia where the CFMEU challenged McKays over their decision to stand down their workforce on the basis that there was an incapacity for them to continue to operate their plant because it was clogged with chips. I recall it very well because after 10 years I made a comeback to the Industrial Commission and put on my former gown and wig and had a lot of fun. The issue itself wasn't a lot of fun.

**Mr MULDER** - You didn't have a skirt on?

**Mr EDWARDS** - I didn't have a skirt on, that's my private life. The short-term solutions we've identified for immediate exploration include - and I listed them when I talked about durability reporting - the potential for using Triabunna. Using Triabunna is only part of the solution because even if we had access to it, we still need a market. Then we have the issue of access to the Burnie port - and I've said negotiations are proceeding in that respect - but again, getting access is one thing, getting the chips off the island is another. We need a market. The third is perhaps an interim -

**Mr DEAN** - There is a market?

**Mr EDWARDS** - There is a market, but it's not a viable market at the current time. I think it's struggling. I don't want to go too far down that path. The third solution we've looked at is potentially interim stockpiling. That might involve - and I'm not saying it does - perhaps government, through some of this funding arrangement, purchasing or subsidising the purchase of some of these products and storing them for a period and managing them. At the moment the problem is they are unmanaged. They are sitting out in the bush rotting, they are drying, cracking and they are becoming unusable even when we do get solutions. You need to have water kept on these things to keep them fresh. You need to be turning the pile over to keep it moving. They are the short-term things.

There are others. Someone mentioned this morning that Glenn Britton was doing something with his chips. That was the case for a period, but at the current time it is not

the case because McKay's are closed for an extended Christmas break. As a consequence Glenn Britton doesn't have anywhere to sell his chips. He has the same problem as everyone else. Others have found they've had short-term markets for sawdust, for dry shavings, the brick company closes down and that changes. It wasn't just Oak Industries that had those markets, McKay Timber had those markets and lost them. They had other markets for sawdust, green dust; they lost those markets for a variety of reasons. The Hobart laundry closed down and went into liquidation.

**Mr MULDER** - Peter Driessen's situation was actually a situation not caused by a loss of market but by a loss of supply because the sawmill had shut because it couldn't get rid of its chips. We are thoroughly aware of the knock-on effects of not getting rid of the residue and you have answered it. The question was, what is the immediate solution to avoiding another Ike Kelly situation, and you have answered it.

**Dr DRIELSMA** - The important thing is that without an agreement, that issue is there. We know it is a difficult issue. Our judgment is that with the agreement, with the support of the ENGOs and with a better market position, we have got a better chance of resolving those issues. They are still going to be very complex issues.

**Ms FORREST** - And some funding to support it.

**Dr DRIELSMA** - And some funding to support it.

**Mr EDWARDS** - And potentially FSC certification. It is not really short term but if, say, certification took two years and we were successful, one of the things that the markets have been saying is, 'We would prefer you had FSC certification to come into our market'. At the moment we can't offer it, we haven't got it.

**Mr MULDER** - That, you probably gathered, is where I am trying to end up but no I am not going to leapfrog to it. You talked about your customers saying 'We don't want the koala protests, whatever you need to do let's get an agreement'. If there is a koala protest, does that suddenly result in a negative impact or is there a level of protest activity or a level of impact of protest activities you have got in mind in terms of negative durability reports?

**Mr EDWARDS** - These are issues we would discuss as the signatory council, when we are asked to prepare a durability report. We would have to look at those sorts of issues. I think I said last time that it is unrealistic to expect that every protest is going to stop the second this agreement is signed or the second this bill is passed. That is unrealistic. We know that is not going to happen, it is very unlikely. Knowing that, what level of protest is acceptable?

I don't know the answer to that and I think it is a highly subjective issue that would need to be considered on balance at the time. From my own personal point of view, I will balance the actual level of protest by the activity of the ENGOs to counter that level of protest and I think Rosemary asked some questions of Vica Bayley last week around those issues, particularly double-checking on the level of commitment that she had received previously from the evidence or submission provided by Lyndon Schneider[✓] and that was a productive exchange, I thought.



It really clarified, I think, that there is no difference between Vica and Lyndon; it is only a question of how they express themselves but part of the balance will be: what do those signatory ENGOs do to try and counter the activity of those embarking on ongoing protest activity?

That is the key issue for me. What actions are taken by government? We have some new remedies available from 1 January thanks to the parliament of Tasmania for people who engage in illegal protest activity that endanger the lives of the protestors or others in the workplace.

I would ask members of the Council to have regard to section 29 of the Workplace Health and Safety Act of 2012 which quite clearly says that if someone knowingly and deliberately breaches their obligation to workplace health and safety - and that is whether you are an employer, an employee or any other person in the workplace - if you do that deliberately then you are up for a fine of up to \$300 000 and five years in the slammer at Her Majesty's pleasure.

They are pretty substantive penalties and I would encourage those who have in the past embarked on activities of chaining themselves to machinery, be it in a factory environment or out in the workplace in the forest, to seriously reconsider because the community, through that sort of legislation, is saying it has had enough and that we are not going to countenance it any more.

That is how we would be balancing up - how do governments and the ENGOs react to that, what steps do they take, and we will then on balance make the judgment call about whether the level of protest is too much or just enough.

**Mr MULDER** - We have had forest contractors say to us - and I think it is on the record - that basically they accept that this stuff will continue, they accept it will go on, and whether we pass laws which allow for summary execution of these people I do not really think is going to make any difference as to whether they do it or not, because we all know that the magistrates are not going to impose \$3 000 fines on someone with incapacity to pay, neither is anyone going to summarily execute someone for breaching the law. These are all nice statements but the practicalities of it are that the law will not stop passionate, committed people, misguided if you like, but they are still going to protest. We have had those statements made in the public arena. I take some heart when you say what efforts have the signatories done to counteract that stuff.

The durability report is a joint exercise of the new special council. Since it took you three years to agree on what the TFA should say, how long is it going to take you to agree on the durability report?

**Mr EDWARDS** - Without being specious, how long is a piece of string? It is an important question and I do not know the answer; I do not think anyone knows the answer. We have set ourselves the task, as the signatory group, in a meeting we held a week and a half ago, that we are going to compile durability reports by consensus, which may be a much higher level ask than allowing a situation where you could have a dissenting report, for example.

**Ms FORREST** - There will not be a report at all if you cannot reach a consensus..

**Mr EDWARDS** - Correct. Lack of a durability report under the terms of the agreement equals no durability.

**Ms FORREST** - Yes, that is right.

**Mr EDWARDS** - That is quite clear, therefore no reserves. There are checks and balances there and had thought about those issues as we did the negotiations and we did put in some protections against it.

I will make one last observation about the situation where you say you cannot summarily execute and so on; that is all true. But I deliberately said we will judge the activities of the signatory ENGOs and the actions of governments. If governments and their judiciary do not back up this agreement, it will spell a lack of durability and we will assess it as that. We are hoping that we never have to see another forestry protest in Tasmania but we are not stupid and we do not believe that is a realistic proposition in the short term.

We hope it is a realistic proposition in the medium to longer term and that is why we have signed this agreement. But we are not silly enough to say there will not be a protest; I am sure there will, but when there is it is how people react to it that is the important thing, not whether there is one, because people do have a right to protest. We have never ever sought to truncate those rights or to trammel them in any way. What we have said is that if you are going to protest, do it within the law of the land because with a democracy that give you that right to protest comes responsibilities and that is to observe the law of the land.

**Mr MULDER** - I put the story back to where you are saying that if magistrates or judges do not impose significantly harsh penalties, as defined by you, you will consider that a breach of the durability from government's perspective.

**Mr EDWARDS** - If the reaction of a government -

**Mr MULDER** - Independence of the judiciary is what I am getting at here.

**Mr EDWARDS** - I know. If the activities of the government, the police, the Workplace Standards inspectorates and the judiciary do not back up the agreement in a way that we can judge it to be durable in the long-term - for example, that it will end up with a situation where illegal protesting will be severely truncated or eliminated, then yes, we would view that as a lack of durability; of course we would. I accept the independence of the judiciary; I sincerely do. However, they need to back the law makers to some extent and I will probably get a smack for having said that. I am prepared to wear that smack because I do not think it has happened in the past and we have seen people who have held up forestry operations for two and three days, costing the contractor about \$30 000 to \$40 000 and threatening people's livelihoods and capacity to pay their bills, and they get a \$20 fine.

I am sorry, there is no equity in that and there needs to be equity here. The workplace health and safety legislation provides the opportunity for a more equitable outcome that can effectively discourage illegal protests. I am not discouraging all protests; I think people should have a right to protest. If they want to march down Elizabeth Street,

Liverpool Street or any other street, as long as they don't disrupt the traffic or pedestrians then they should be free to do that.

**Mr MULDER** - Wouldn't your position on the courts backing up the agreement of the government be better served by having the government put in minimum penalties, for example? If you wanted to do it that way, you would remove from the judiciary the capacity to undermine your agreement in your terms?

**Mr EDWARDS** - That's an issue that's outside my purview. I would suggest it's a matter for the legislators of the land to consider when they have various pieces of legislation before them. I don't think they will be benefited at all by my opinion.

**Mr MULDER** - But they will give you some surety when you're going to make judgments about whether the courts are backing the agreement.

**Mr EDWARDS** - It absolutely would, but I am not a legislator. I said previously I had made a conscious decision not to be a legislator and I leave it to those who are to make those judgments.

**Mr MULDER** - There are those who argue that with your insistence on the bill as it is it makes you a legislator.

**Mr EDWARDS** - No; you have a public interest test that I have never had to apply.

**Mr MULDER** - Looking at the process under the existing bill, the one you suggest we stick with, can you step me through the process of all the land going into the public land bank and then, as a result of durability, coming out and going into reserves in tranches?

**Mr EDWARDS** - Yes and no. The arrangement, as I understood it, under the original architecture of the bill was that before the protection order could be brought to the parliament the minister was required to commission a durability report. Under one of the amendments - I think it may have been Ruth's - it would be required to be tabled in both Houses of the parliament when the protection order was brought forward. Once the protection order was dealt with, assuming it passed that durability test - that is the act of putting the land into the bank that the bureaucrats spoke about this morning - once in the bank it is drawn down on and distributed as reserves, with the one exception that 385 000 - tranche 1 - as soon as the protection order is accepted is immediately, under the current structure, given reserve status. It is moved out of the bank and into the next phase of the process. It does not come back to the parliament for further durability testing, nor for further consideration by either House of parliament.

**Mr MULDER** - The other tranche under that model, is that what's referred to as the once-off log restore and reserve or log of last resort?

**Mr EDWARDS** - No, the next component is tranche 2, which is 137 000 and is subject to a new durability report which is to be brought to the parliament in conjunction with a proposed reserves order dealing with tranche 2. That is dealt with by the parliament at that time in light of that durability report. In the event that is successful and goes through both Houses of the parliament that then becomes a drawn-down on the bank and is distributed out as a reserve.

**Mr MULDER** - And the time frame for that second tranche?

**Mr EDWARDS** - About March 2015.

**Mr MULDER** - And then the third tranche, which is log of last resort?

**Mr EDWARDS** - That is an area that has been set aside for consideration at a later date. We have said we would decide in approximately 2022 where we are at with wood supply as against the agreement and issues of that nature and decide the likelihood of those areas being used for harvest. They are a bit of a backstop or a buttress.

**Dr DRIELSMA** - Sorry, just to correct that, those areas in the third tranche will be available for harvest. The decision in 2022 will be, whether they've been harvested or not, should they proceed into the reserve. Up to that point there will be no restriction on their being used for harvest because some of them are a log of last resort but others are simply log and restore.

**Mr EDWARDS** - You are right, and I am right. There is an element of each because some of these forests are not scheduled to be logged until after 2027 -

**Dr DRIELSMA** - Some are.

**Mr EDWARDS** - to provide an ongoing supply to Ta Ann Tasmania, particularly, post the finalisation of their current contract period which is 2027 through to 2032, as I recall it. Those are the sorts of issues, in combination with what Hans just said, that would be considered as part of preparing an additional durability report in 2022, which would come back to the parliament.

**Mr MULDER** - So this is the 20 per cent. I think we have three categories - soft log, restore and reserve and log of last resort?

**Mr EDWARDS** - Yes.

**Mr MULDER** - So it will end up with one of those three in perpetuity if the agreement goes through?

**Mr EDWARDS** - Yes, or it could be reserved, pending our decision in 2022.

**Mr MULDER** - With the government's proposed amendments, I know we've heard what the government said, but how in your mind does that impact on the progression of these things into reserves?

**Mr EDWARDS** - What we would have, if the government amendments were accepted as written, is that no durability report would be required until such time as the second reserve tranche was brought to the parliament in about March 2015.

**Mr MULDER** - So parliament would not to get to make any durability assessments?

**Mr EDWARDS** - None whatsoever.

**Ms FORREST** - There is another amendment I had to do with that.

**Mr MULDER** - On the first and second tranches?

**Mr EDWARDS** - I said the bill as currently structured, as amended only by the government amendments. I accept what you say, Ruth, you're dead right and I have that firmly ensconced in my mind, but at the moment if we just accepted the bill as written, as it came from the lower House, amended only by the government's proposed WOG amendment, you would not see a durability report in the parliament until March 2015.

**Mr MULDER** - Which would about the time of the second tranche?

**Mr EDWARDS** - The second tranche of reserves - so 395 199 hectares would go into reserves without a durability test.

**Mr MULDER** - Unassessed, undurable.

**Mr EDWARDS** - Correct.

**Mr MULDER** - Isn't it a fact though that that first durability report is probably required in the next couple of months?

**Mr EDWARDS** - Yes.

**Mr MULDER** - Isn't that a very short timeframe to deal with durability?

**Mr EDWARDS** - In fact, no. I think the answer is better no than yes. I know I said yes but I would like to retract that.

**Mr MULDER** - It's not a very long duration for durability assessment.

**Mr EDWARDS** - No, it's not, but the duration we will be assessing as signatories starts from the day we sign the agreement through to the date we write the durability report and beyond. What I mean by that is at the moment the durability report is required after the passage of the legislation and before the presentation to the parliament of a protection order. I don't know how long that will take; that is a matter for the minister. At the moment it is the minister's responsibility to prepare and present a protection order. He cannot do that until he does two other things. The first is to get a durability report from the special council and the second is to get the carbon assessment from the commonwealth government about whether it does or does not comply with the carbon farming initiative or other federal government potential funding arrangements around carbon. I heard that discussion this morning and am just as confused.

**Mr MULDER** - If it doesn't, that's non-durability?

**Mr EDWARDS** - Yes.

**Mr MULDER** - If it doesn't get the carbon tick from us -

**Mr EDWARDS** - That will be a matter for the Parliament of Tasmania exercising its public interest test.

**Mr MULDER** - And in your mind the durability report would say, 'This aspect - negative'.

**Mr EDWARDS** - Yes. We don't actually assess the carbon issue.

**Dr DRIELSMA** - I don't think that would be an issue we'd be -

**Mr EDWARDS** - It's not. That's clearly stated in the original architecture of the bill -

**Mr MULDER** - I wasn't asking you to assess it, I was just asking of your assessment of the durability if that's not there.

**Dr DRIELSMA** - That's not an element of our durability; it's not in the agreement.

**Mr EDWARDS** - We haven't put that in our agreement.

**Dr DRIELSMA** - There's nothing in the agreement about that.

**Mr MULDER** - I thought you were saying that.

**Mr EDWARDS** - No. It's an issue for the Tasmanian government. They have made it an issue and have said in the architecture of the original bill that they will, before any reserve order is made, contact the federal government and get an assessment on the carbon status, if I can use that broad term. I would assume that if it came back to this parliament and the commonwealth answer was no on carbon, this parliament would exercise its public interest test about whether or not it thought this agreement should be continued. That's clearly an issue for the parliament using its public interest test. I think, as a backdrop to this, the state government seemed to me to have always had an expectation that moneys would flow from the commonwealth to the state as a consequence of the sequestration of additional carbon in secure reserves no longer available for harvesting. That's my assessment; they haven't said it to me in as many words but I notice the Leader is nodding so perhaps he has some information I'm not privy to.

**Ms FORREST** - He's hoping that's the case, I reckon.

**Mr MULDER** - Let *Hansard* record that he was not falling asleep.

*Laughter.*

**Mr MULDER** - The last point on durability will go to the importance of FSC certification for both the durability of the agreement and the durability or the future of the industry, which is one of your vision statements. How critical do you see FSC certification being to the long-term future of the industry and therefore the durability of both this agreement and the industry?

**Dr DRIELSMA**- Getting FSC certification is certainly a critical element as far as our durability is concerned because, in our view, FSC is important in countering the

perception of the market that the environmental movement is against the products from Tasmania. They have created that situation so we need the FSC certification, which clearly is linked with their interests, to counter that view, so it's an important element for us. We've made it a critical element of durability and we've said if that's not delivered it will be a failure of durability. Is it critical long-term for the survival of the industry? I think personally that's overstating it but it is important for us here and now in countering the market perceptions that have been created around Tasmanian product.

**Mr EDWARDS** - The issue about market could become much more important over time. I heard the evidence from one of your witnesses who said less than 2 per cent of all wood products worldwide are certified.

**Mr DEAN** - The TFGA.

**Mr EDWARDS** - TFGA, was it?

**Dr DRIELSMA** - I think the figure is that about 8 to 10 per cent of the world's forests are certified.

**Mr EDWARDS** - The comment was about wood going into the markets.

**Mr MULDER** - I think we may have been misled a little by those sorts of figures because it's not what it's about now, it's about the future of the industry. It has been made clear by just about everyone, bar one or two, yourself included now, that FSC is really a vital part of the future of the industry.

**Mr EDWARDS** - It is, and I think it will likely become more important. There is a growing demand, particularly from international markets, for independent third-party certification with chain of custody associated with it. To date, the industry in Tasmania and indeed in Australia has predominantly tried to achieve that through PEFC certification. Some markets are demanding FSC certification; others are demanding PEFC certification, and it seems almost inevitable, unless we can get some sort of cross-referencing between those two schemes that compete with each other in a market place, that we're probably going to need people certified to both standards. We already have that; many are.

**Mr DRIELSMA** - I don't accept your premise and I should declare upfront that I'm a director of the Australian Forestry Standard and also a director of PEFC International. I declare that interest but PEFC is the largest forest certification system in the world by far. It is continuing to grow and is becoming much more significant in the Asian market. China has just recently submitted to PEFC its forest certification system for mutual recognition and endorsement of a PEFC scheme. If they're successful that will be a major shift in the dynamics of certification in the Asia-Pacific region.

I don't, in any way, think that the future of the industry is necessarily tied to FSC certification alone. There is no doubt that it's in the interests of many in the industry to have FSC certification for particular markets that currently require it, but it is more the case that FSC is important for us here and now because of the perceptions and the market impacts that have been created specifically around Tasmanian product in the market. That's the critical element for us here and now. Is FSC the only solution going forward in future? No, it's not. PEFC is a perfectly acceptable, legitimate certification scheme

accepted worldwide and it will continue to be the case. There is a place for both and at this particular point I certainly agree that it is very important to shift the perceptions and to communicate the results of the agreement that we currently have for us to pursue that FSC certification and to use that. That's as far as I would go.

**Mr MULDER** - I will slightly restate my premise to say that it's vitally important to the outcome of the agreement and the durability of the agreement -

**Dr DRIELSMA** - Correct.

**Mr MULDER** - because we all know that next week somebody is going to dream up a new standard we have to reach, but for the purposes of the agreement I think I am hearing what you are saying that FSC certification is a very vitally important component of the durability of this agreement.

**Mr EDWARDS** - If I could point out that clause 46 of the TFA actually uses the term 'national certification standards' in the plural. It is not limited to FSC. It does, however, then go on in clause 47 and say, 'We're actively going to pursue FSC certification for the public lands.' That is public production timber zone lands because it is important for FT as a supplier to a number of its customers to be able to supply FSC-certified timber, which under chain of custody arrangements are then permitted to go into Japan free of concern because the issue is -

**Mr MULDER** - If they go into that process and then seek to undermine it because of things like cable logging and the clear-felling, you will consider that a breach of their obligations and commitments under the TFA?

**Dr DRIELSMA** - Absolutely. Our understanding of the agreement.

**Mr EDWARDS** - Absolutely. We rehearsed that.

**Mr MULDER** - It is nice to see you in such unison.

**Mr EDWARDS** - Absolute lock step.

**Mr MULDER** - I have one question about reserves, which I think should be fairly simple, unless people want to ask supplementaries on this durability stuff.

**CHAIR** - I am going to go to somewhere else because that's been 40 minutes of issue.

**Mr MULDER** - You had an hour.

**CHAIR** - No, I didn't. I had 15 minutes of the hour.

**Mr DEAN** - We were talking about the 137 000 versus the 155 000 cubic metres of logs. There is obviously nothing now in there for growth in the industry at all. That's an issue that has been raised with us. Groups have said that the required amount of logs for the industry is not only tight now, but will be super tight with this agreement. What is the position there? That's an issue that was raised with me by members of the public out there, and that there is no growth provided for.



**Dr DRIELSMA** - Except through plantation.

**Mr EDWARDS** - There is no growth in native forest sawlog production available in the public estate under the confines of this agreement. Hans put it very, very succinctly I think last time we were here when he talked about the 10 per cent headroom and how tightly constrained log supply is under this agreement, and probably more tightly constrained than prudent in normal circumstances. We've said that before; it's not a new statement, but it is true that it's very tightly constrained. What we've had to accept as an industry is that going forward the growth potential has to be from plantations, be it nitens or globulus that I think John was talking about as the previous witness.

We've asked for R&D funding from government to help us try to find ways to successfully process into high value appearance grade products, or in the alternative reconstituted or engineered products arising from plantations so that we can make that transition. The select committee that was led by Greg Hall about the potential for a holus-bolus transition across to plantations in an unmanaged way had certain conclusions in it and I have to say I agree quite fundamentally with most of those conclusions. I think they were very well considered and that translation is not available in the short term. But we do know that from about 2022 or thereabouts, there will be a plantation wood flow including timber that has been managed on a silvicultural regime of thinning and pruning with the original intent of trying to provide a replacement solid wood product. It will not do that. It will not replace the superior qualities of native forest timbers but it will produce an opportunity for an industry to be based around those new products.

The proposal that was discussed with you by Fred Ralph from TSA, when he was in here on Wednesday of last week, is exactly around that concept of trying to use plantation-grown material and producing a reconstituted or engineered wood product from that material because that is the supply that is going to be available to that sector of the industry. That much seems clear.

Is this our preferred outcome? No, it is not. Would we have liked to see a higher level of supply? Yes, we would. Would we have an agreement if we did that? No, we would not and therefore, we have said, okay, we need to focus on getting what we can for now, get the durability and consolidation into the industry, encourage investment in exactly the same way as I think Adriana was saying to John Hollis before. Get the investment into the industry, get the FSC certification, let us get all our baselines right and with the RMD, try to find something we can do usefully and productively and a market to penetrate for the plantation-grown material. That is our vision.

**Mr DRIELSMA** - We have to look at growth in two ways. The only volume growth is going to come through new resources which are plantations. But revenue or profitability growth can come through better utilisation, higher value adding, new product development and there are elements in this agreement which are clearly articulated and directed towards those developments as well.

**Mr DEAN** - Then you have Oak Industries who were saying there is nothing that can replace Tasmanian eucalypt, the native forest timber. They were saying they need it for their product that they are currently producing. We have also heard from members there is a

big demand for Tasmanian eucalypt flooring. They are saying that there is a strong market for it, contrary to what some others have said.

**Mr EDWARDS** - I do accept that, it is true. In our submission we talk about the markets for high quality sawn timber and we specifically make the point that they have remained very strong. There has been some contraction in margins, which is part of the normal cyclical nature of the industry. When you have a contraction of housing construction, margins for sawn timber decline. As the housing industry, in particular, returns to a normal level, our margins can grow again. We are not price makers in the marketplace, we are price takers.

Oak Industries are like nearly every other customer of the sawmill community, including most of my members and they are supplied by my members. There is no indication at this stage whether they will or will not lose volume. I accept their point that some of their traditional suppliers may not make it through this process. I do not know precisely what the outcomes will be for individual people but there is still going to be 137 000 cubic metres of high quality Tasmanian oak sawlog sawn up and processed into dried board, which is the product they want, and I guess they are going to have to compete in the same marketplace as everyone else to purchase that material.

Others competing are bigger than them and maybe have a better cheque book approach than they do. You are talking about the Bunnings and the Mitre 10s and Harvey Normans and those people. But they are also competing with Joe average in the street. If you want to buy Tasmanian oak floorboards, you can buy them from Oak Industries or you can buy them from Britton Brothers or you can buy them McKay's and that is competition. I heard them say they do not object to competition and they have to compete with everyone else in the marketplace.

What we will see is a significant contraction in the overall volume produced by the Tasmanian industry. We have been running, until recent times, at about 348 000 and for whatever reasons, over a little bit of time, we are going to end up down to 137 000. There is a range of things in there that go to that breakdown and the way it has dropped the way it has, but that is where it will be. Our best estimation is that this is the best agreement we can get to provide us the foundation we need to move forward with an investment capability, and they are the key issues. The alternative may have been, as some have suggested but I don't subscribe to this view myself, if we don't have an agreement we end up with no industry and Oak Industries don't get a splinter or others don't get a splinter. I shouldn't keep singling out Oak Industries. I don't mean it in that way, but no-one would get a supply and we don't have an industry. I don't subscribe to that view and I don't think it is right, but some have said that.

**Dr DRIELSMA** - I don't think it's ever been our position that this agreement has been driven by any lack in the market for high-quality sawlogs.

**Mr DEAN** - The comment has been made that there has been a significant drop-off and changes in the market.

**Dr DRIELSMA** - Those cyclical things happen all the time. Nobody is saying that's the long-term position.

**Mr DEAN** - A lot of people are saying it will change and turn around and grow.

**Mr EDWARDS** - The people who make those comments are starting from a point of about 10 or more years ago when they were looking at the progressive changeover of structural framing timbers particularly from being hardwood to softwood. That process of change has been going for a long time and virtually no structural timber these days is hardwood. It is very rare to find structural hardwood used in housing these days because pine is cheaper to produce, particularly the imported wood from New Zealand, it is lighter and easier to use for the builders. My son is a chippie and he tells me he would much rather be framing up in pine, working up above his head two storeys above the ground holding up a piece of timber he's going to use as a lintel or something else, than holding up a big lump of Tas Oak, which is so much heavier and harder to use.

That is why the translation, it's a cost issue. The vast bulk of the timber being used as framing pine in Tasmania is coming from New Zealand; it's not coming from our local pine producers. It is being imported. That is the other thing about the alternate products. I said it last time I was here and I would be remiss not to say it again: one of the issues we face is the importation of products from other places that are cheaper. We have had a dramatic collapse in the housing markets particularly in the US and Canada and as a result they have a significant amount of timber they are selling into the market at a ridiculous price. We can land the US white oak, which is similar in characteristics to Tas Oak, into Tasmania cheaper than we can produce our own Tas Oak here.

When we looked at the market situation when we were confronted with compromise or die, one of the things that was evident was an alternate product existed that could be landed here cheaper than we can produce our own. In part that can be addressed over time through cyclical change, and that's fine, but at the moment we have to face realities and they are the realities.

**Mr DEAN** - I am interested in the IGA when you referred to -

**CHAIR** - Are you going onto a different track here?

**Mr DEAN** - It was raised previously and I didn't raise it there. I was going to go onto that and cable logging.

**Ms FORREST** - We will have to get them back to talk about the amendments.

**CHAIR** - We will need to decide about that. I don't know where we will. We may need to write to the two organisations with a raft of questions.

**Mr MULDER** - This morning we heard the government people say that when they were working out what values related to what reserves they did their own assessment. I think the basic thrust was that anyone who googled Map Earth could have done it. We also heard them say the identification of which tracts of land was based upon a lower level set of values to which they weren't privy but that the signatories of the agreement had been to some expert studies about the values of particular parcels of land. As part of the signatories, were you made aware of that information? I think earlier on you said you did not concern yourself with it but was that information available to the signatories.

**Dr DRIELSMA** - I think I gave a fairly extended view on that last week before the committee and that is that the reserves reflect a negotiated outcome. They do not reflect a consideration of value per se, not as far as we were concerned and they were based, as Terry has indicated, on the priorities that were placed on areas by the ENGOS and our assessment of their bulk wood supply. It was not a scientific or technical process and for that very reason AFPA in particular was concerned that people understand that there was no prioritisation or scaling or rating of these areas against external classifications.

**Mr MULDER** - My question related not to that but to whether the NGOs, for example, had been provided with that expert advice on the values of the particular lots of land, which resulted in them nominating them to the government?

**Mr EDWARDS** - My understanding is that the ENGOS produced a document, right back at the beginning of this process, in which they described in a fair bit of detail, and I think it was tabled by either Vica or Phil in their appearance before the committee, which is about a 600 page document that describes each of the land areas and why they were pursuing it. The independent verification group led by Professor Jonathan West was asked to review that assessment by the ENGOS of the values that they considered to be high conservation values and that assessment was led by Professor Brendan Mackey. It is that assessment that Hans has indicated quite clearly last time we were here we do not think was done on a proper scientific basis and we have some problems with the way it was conducted.

What it did do was go through and place the values that they believed existed in each of these tracts of land and they did it in polygons of varying sizes and they described the values that existed in each of those polygons and reached an overarching conclusion that in large measure the ENGO assessment that these areas contained forests with various conservation values was a correct assessment - they did contain forest with a range of conservation values. It never said that they were high conservation values or that they were medium conservation values and in fact Professor Mackey refused the joint AFPA/FIAT request to assess the forests on the basis of a hierarchical structure of value. He said you can't do it that way.

To describe these now as high conservation value forest is erroneous because that is not what was assessed firstly and secondly it does not accurately reflect the way the negotiations process played out. What we have is a negotiated set of proposed reserves and a negotiated wood supply.

**Dr DRIELSMA** - We were not given nor did we ask for justification as to why certain areas were included or not included.

**Mr EDWARDS** - We asked the ENGOS to do that so that they would own the outcome.

**Dr DRIELSMA** - So we accept that they reflect their sense of priority based on whatever set of values or priorities they had in regard to those areas.

**Mr VALENTINE** - Not necessarily scientific then?

**Mr EDWARDS** - They could be favourite places I think.

**Mr VALENTINE** - An industry reference group existed back in 2010. Can you tell us what part that played in all of this?

**Mr EDWARDS** -There have been so many groups. Is this the one that I think it was Jim Adams described when he was before you the initial formation?

**Mr VALENTINE** - Yes, I am wondering if you might expand a bit.

**Mr EDWARDS** -That was a forum created effectively by FIAT, which was enlarged to include a raft of other groups. We used it to formulate initially our position and it basically existed during the time we were negotiating the statement of principles to lead to an agreement document, which concluded towards the end of 2010. It was to provide guidance to negotiators in that process about what industry wanted to see.

**Mr VALENTINE** - Who was in that?

**Mr EDWARDS** - Going way back then -

**Mr VALENTINE** - You have got minutes; that will do. You can table them to save you -

**Mr EDWARDS** - I am not sure that we do but certainly FT were involved, FIAT was involved, AFRA was involved, TCA were involved, Tas Forest Contractors were involved, Australian Forest Contractors were involved, Private Forests Tasmania were involved.

**Dr DRIELSMA** - TFGA.

**Mr EDWARDS** - TFGA were involved, depending on which hat Ian Dickenson was wearing at the time.

**Dr DRIELSMA** - They were certainly involved in the early stages.

**Mr EDWARDS** - Yes. There was a raft of people involved and they had input right through to the point where we reached the statement of principles to lead to an agreement document. It was then superseded by the reference group of signatories largely, who went through a negotiation process before Bill Kely. But there was still a reference group sitting behind that. There was an industry one and there was an environmental one sitting off to the side, outside of the direct negotiations.

**Mr VALENTINE** - The one that Dr Julian Amos chaired - was that the one?

**Mr EDWARDS** - Julian chaired that initially, as the chair of FIAT, and was appointed to chair that initial industry reference group.

**Dr DRIELSMA** - All the way through the negotiations, we maintained an informal reference group of industry participants whom we would regularly go back to and discuss the course of the negotiations and the issues.

**Mr VALENTINE** - Is there any chance of getting a copy of the official list of who was on that group?

**Mr EDWARDS** - I could have a look and see if I have got it. I cannot give you an undertaking that I do but I will undertake to have a look and see if I can find it. It is the 2010 industry reference group.

**Mr VALENTINE** - Just a quick question: one-off log. Does that mean clear fell?

**Dr DRIELSMA** - No, not necessarily.

**Mr EDWARDS** - But it does not exclude it. What it does is to allow the coupe to be accessed once for harvesting.

**Mr VALENTINE** - Okay.

**Mr EDWARDS** - It might be clear fell or it might be selective logging.

**Mr VALENTINE** - Or it might be selective.

**Mr EDWARDS** - It depends on the forest type.

**Dr DRIELSMA** - One of the largest areas there is actually an area that would be selectively or partially logged, but it is a silvicultural decision; it was not a decision of the agreement.

**Mr VALENTINE** - Thanks for that. Thank you, Mr Chair

**CHAIR** - Terry and Hans, thank you.

**Mr DEAN** - You will not be back again?

**Mr EDWARDS** - I would like to come back about the amendments process.

**THE WITNESSES WITHDREW.**