

**THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON SCOTTSDALE
SAWMILLS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART,
ON WEDNESDAY 18 MAY 2011.**

Mr ROBERT LINDSAY GORDON, MANAGING DIRECTOR, FORESTRY TASMANIA, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Booth) - Welcome to the committee, Mr Gordon. I apologise for my lateness to the committee. Mr Gordon, I am sure that you are very familiar with giving evidence before these committees but I have to ask you whether you have received and read the guide sent to you by the committee.

Mr GORDON - I have just had a look at it and read it then.

CHAIR - I will just reiterate some important aspects of the document. A committee hearing is a proceeding of Parliament which means that it receives the protection of parliamentary privilege which is an important legal protection that allows individuals giving evidence to a parliamentary committee to speak with complete freedom without the fear of being sued or questioned in any court or place out of Parliament. It applies to ensure that Parliament receives the very best information when conducting its inquiries. It is important to be aware that this protection is not accorded to you if statements that may be defamatory are repeated or referred to you outside the confines of the parliamentary proceedings. This is a public hearing. Members of the public and journalists may be present which means that your evidence may be reported. It is important that should you wish all or part of your evidence to be heard in private you must make this request and give an explanation prior to giving that relevant evidence. That is understood, Mr Gordon?

Mr GORDON - Yes.

CHAIR - Thank you. Without further ado, I will hand over to the committee to ask questions, unless you have an opening statement in particular that you would like to make.

Mr GORDON - I have. We have already submitted a written submission to the committee. I think it must have been over a month ago. I also note that there was an extensive inquiry by the Parliamentary Standing Committee on Environment and Resources in March 2007, which I think both Mr Gutwein and yourself were on -

CHAIR - That is right.

Mr GORDON - which appears to have covered much of the ground of this committee. For those who were not on it and I do not know whether it has been done, I thought I might table that previous inquiry and the transcripts of the evidence that I gave at that committee hearing.

Mr GUTWEIN - That has already been circulated to all committee members.

CHAIR - Yes. Thank you for that. We do already have that.

Mr GORDON - From our understanding, the reports of that committee covered basically part 1(a) of the committee's terms of reference and I thought I might just summarise what the extensive inquiry found back in 2007.

I think a couple of comments have been made in the public arena - assertions - since then. One of them was that the fate of the Scottsdale mill had something to do with poor public policy. In my view it had everything to do with the failure of Auspine to spend any money on those mills over a considerable period and to modernise them so that they could be competitive in the modern wood-processing industry. It is also not true to say that the Scottsdale mills did not have access to resource. In 2007 Forestry Tasmania entered into a contract to supply those mills with 100 000 cubic metres of logs a year.

CHAIR - What date was that, Mr Gordon? I just missed the date.

Mr GORDON - In 2007. I think it was about February/March.

CHAIR - That was 100 000, did you say?

Mr GORDON - Yes, 100 000 per year from the west coast and King Island. That was a stumpage sale. That is, the customer was responsible for part of its transport and delivery. Those mills at Scottsdale have never taken the full volume that has been available. In 2008 they took 89 000 tonnes; in 2009, 58 000; in 2010, 27 000; and before they closed the mills in February this year they had only taken 27 000 tonnes. So only about 230 000 tonnes of the potential 400 000 tonnes available under those contracts has been taken. The condition of that contract was that the logs had to be processed at Scottsdale and that was a condition from the beginning and at the very start of negotiations. As Forestry Tasmania has said, if the new owner, Gunns, want to keep that mill open then as far as we are concerned we will continue to supply logs to the Scottsdale mill sites. Our understanding from Gunns is that they are asking us to deliver logs back to Scottsdale so we are assuming that they considering reopening the Ling Siding mill because the only way that those logs can be processed under the contract is if they are processed at the Scottsdale mills.

Mr GUTWEIN - What is the definition of processed?

Mr GORDON - Turned into sawn timber.

Mr GUTWEIN - That is a clear definition in that contract?

CHAIR - So woodchipping is not processing?

Mr GORDON - No, and these are sawlogs anyway. They are high-value logs. As part of that contract we have been attempting to dispose of the lower-grade logs that are produced from the plantations and I am sure that at least some of you are familiar with the west coast pine plantations. They are patchy and they have mixed quality so there is a lot of other material produced which is why we have been exporting logs out of Burnie.

Mr GUTWEIN - What sort of tonnage?

Mr GORDON - Of residues?

Mr GUTWEIN - Of logs exported.

Mr GORDON - Our volumes would be quite low. We sold most of the pulpwood to either Norske at Boyer for turning into TMP newsprint or to Smart Fibre at Bell Bay. We did sell some to Gunns for a while when they had the Massy Greene chipper going and they were chipping and exporting as chips. I can get back to you on our log exports volumes, but my rough guess is probably only 20 000 or 30 000 cubes. There have been other forest owners exporting much larger volumes than that out of both Burnie and Bell Bay but they have not been Forestry Tasmania's logs.

As far as I am aware, Gunns are reconsidering that option. We have made it very plain to Gunns that the contract was only for logs that were going to be sawn at either of those two sawmill sites. As we understand it, only Ling Siding is currently operational, the other one has been in the process of being decommissioned, and we are more than happy to continue to supply those logs to that Ling Siding mill while ever it is operating.

CHAIR - Would they be available to any Scottsdale sawmill or is it specifically to Ling Siding?

Mr GORDON - The contract is with Gunns but if there were other Scottsdale sawmillers who wanted to take softwood sawlogs and who currently did not have access to them - I know that the softwood joint venture sells logs to all of the other mills that are still operating there - then again we would be happy to have an approach from those mills.

CHAIR - Effectively what you are saying is that you have 100 000 cubic metre availability and you have entered into contracts in the long term with Gunns specifically for the Scottsdale mills -

Mr GORDON - Yes.

CHAIR - but if Gunns do not take that up at either of those two mills, and you pointed out that they only took 27 000 cubic metres last year, would that mean that you would provide 73 000 tonnes of that 100 000 to any other player in Scottsdale who wanted to cut?

Mr GORDON - I am unaware of any other players at Scottsdale. There is the Branhholm mill -

CHAIR - In that region then.

Mr GORDON - which would probably struggle to process that grade of log because of the market that they have. They are more into the packaging market.

CHAIR - Yes, in terms of getting a return out of paying for a sawlog-quality one.

Mr GORDON - Yes, so you would struggle to pay the price for a sawlog.

CHAIR - But hypothetically; there is talk about that.

Mr GORDON - The legal agreement is that the logs were available to the two Gunns mills at Tonganah and Ling Siding while ever those mills were operating. The contract expires in I think about the middle of next year because that was about the resource that we thought we had on the west coast - 100 000 a year for five years. We have renewed, at Gunns' request, each of the rollover provisions they had for those logs. From our point of view the contract is at end as soon as they stop processing the logs at one of those Scottsdale mills but it is our intention to put those logs on the market if there is a demand for them from others, or we will keep them on the stump and grow them a bit fatter.

CHAIR - Could that allocation be ring fenced? There is a potential - a possibility and that is all it is; there is no proposition formally in that sense but there is certainly the kernel of an idea - to have some form of sawmilling established in the Dorset region, somewhere around Scottsdale, possibly at one of the old Gunns' sites. Some form of wood processing and training mill was one of the proposals. Could you ring fence Strahan and other allocations, subject to this contract, for such a project, for example, if someone wanted, hypothetically, to start another mill if Gunns won't take it?

Mr GORDON - We were approached by two parties about three or four months ago asking us about the availability of logs. First we referred them to the softwood joint venture because there is a far lump of their resource around there and there is some more small log volume available soon. We also described the resource we had. The practical problem is it is a very expensive cart from the west coast to Scottsdale.

CHAIR - Sorry to interrupt you there, for cartage there was an arrangement for the Strahan logs with the Government, wasn't there?

Mr GORDON - The Commonwealth Government at one stage offered assistance but I understand that was withdrawn.

CHAIR - So your understanding is that there was never a log subsidy or a reduced royalty in regard to that Strahan pine or was it the royalty?

Mr GORDON - No, FT entered into the contract at a lower than commercial price deliberately to assist the Scottsdale community and to ensure that there was at least five years' supply of logs to those Scottsdale sawmills and that was done at a reduced stumpage.

CHAIR - Was that at a dollar for the lot?

Mr GORDON - No, I think it was a dollar for King Island - people kept on talking about Flinders Island but we do not have any logs with Flinders Island. The challenge with the King Island one is basically transport. It is extraordinarily expensive to get stuff, as I am sure you would both know, with any of the Bass Strait shipping.

For the Strahan logs I think the price we ended up agreeing on was \$12.50 but I would have to check that.

CHAIR - A cube?

Mr GORDON - A cube, yes.

CHAIR - Stumpage?

Mr GORDON - Yes.

CHAIR - They had to do their own falling?

Mr GORDON - Correct. All of the softwood joint venture sales are at a mill-door price, and you could probably term it a community service obligation contract. It was done at a lower than market residual stumpage price.

Mr FERGUSON - What would an equivalent price usually have been in the market?

Mr GORDON - They were a mixed grade of logs so the stumpage price can vary from close to \$100 for a high-grade pruned log bigger than about 45 centimetres down to probably \$25 for an unpruned smaller log. It depends; there is a huge gradient on grade.

Mr FERGUSON - Of course, the market value of that resource is degraded by its location?

Mr GORDON - Except that there is a potential market at Burnie because some of the logs were going to the Somerset veneer mill. There is a component of the west coast resource that is pruned and they are worth a lot of money. You are talking about current New Zealand prune-grade logs of, I think, about NZ\$200 so that is A\$160 or something.

Mr FERGUSON - Can you indicate to the committee to what extent the price then at \$12.50 was an extraordinary price or a discounted price? Could you give an approximation of what you saw as the discount?

Mr GORDON - I would say it was probably about half the price.

Mr FERGUSON - For the benefit of the committee it may be worth me interjecting that there was a Commonwealth payment provided to Auspine but it may not have been in the form of a direct transport subsidy, we are going back now, but it was a business subsidy conditional on job thresholds.

Mr GORDON - I think when they shut the Tonganah mill that subsidy stopped.

CHAIR - It ceased at that point, I think.

Mr GORDON - Yes. I think that was about two years ago.

Mr FERGUSON - That was the condition; there may be more.

Mr GUTWEIN - There was some recovery of that, I think, at the time.

Mr FERGUSON - Yes, there was.

Mr GUTWEIN - The Government recovered from Auspine.

Bob, can I ask you a couple of questions? You made a comment that some logs are still being delivered to Gunns at Scottsdale and so you presume that they were still going to be doing some work there. How close a relationship do you have with a customer like Gunns? Obviously there has been some comment in the public discourse, I have made some comment as well, about the fact that they are looking for extra logs down at the FEA site. You seem to indicate that they are having logs delivered to Scottsdale but who knows what it is for and I guess at the end of the day that is the customer's business but I am just wondering what sort of relationship you currently have with them.

Mr GORDON - I suppose my point about the logs was the condition under which those logs are sold is that they must be processed at Scottsdale. Gunns have said that they want to restart some of their logging operations on the west coast basically to clean up some coupes and as part of the normal contractual relationships they need to tell us the delivery point and the delivery point is Ling Siding and therefore under the contract the only option that they have is to saw those logs at Ling Siding.

Mr GUTWEIN - What sort of tonnage?

Mr GORDON - I do not know that. I could find out. It was done at an operational level and I was briefed on it yesterday.

CHAIR - It would be a maximum of 100 000 for a year.

Mr GORDON - It would not be anywhere near that because it is winter.

CHAIR - But over a year that is all the contract offers anyway.

Mr GORDON - Correct, and we are already most of the way through the year. I was expecting thousands of tonnes but again, I do not have that detail.

Mr GUTWEIN - Would you be able to provide that to the committee?

Mr GORDON - Gunns would have it. Gunns sent us a note saying, 'We are restarting the operations'. The delivery point is Ling Siding and then at the end of the month Gunns send us a self-generated invoice to say how much has been delivered. We have the right to check the volumes but there are scanners and stuff there anyway. I do not know, and I do not think we would necessarily know about what the weekly production would be.

Mr GUTWEIN - But you would know at the end of the month?

Mr GORDON - We will not know at the end of this month because I do not think they will actually get any logs in May but we would know at the end of the next month.

Mr GUTWEIN - When you say you do not know how much, is that because under the terms -

Mr GORDON - Because it is a stumpage sale and they are responsible for harvest and transport.

Mr GUTWEIN - Okay, so they take whatever they want and then pay at the end of the month?

Mr GORDON - Correct.

CHAIR - Like self-service?

Mr GORDON - Yes, something like that. It was done that way because at Auspine's request their intention was to keep the mills going and they were going to use the access to the west coast resource as the balancing item because there is a fairly large amount of pine under other ownership, whether it is Gunns or FEA. It was under Auspine but Auspine ended up selling their pine plantations to Forestry Tasmania when they were under Frenchpine ownership. So that was basically the deal, that that would be used as a balancing item so they knew they had 100 000 cubic metres of sawlogs every year for the five years to keep that mill going.

To go back to the relationship with Gunns, when Gunns announced that they were shutting Ling Siding we wrote to Gunns pointing out the conditions in that west coast contract and offered to sell Gunns those logs at the Bell Bay site if they paid the saving in transport. So if you picture the west coast and you have to drive through Bell Bay to get to Scottsdale, it is about 85 kilometres from Bell Bay to Ling Siding, so we said if they paid the saving in transport then we were happy to sell them the logs.

Mr GUTWEIN - As simple as that?

Mr GORDON - As simple as that.

CHAIR - For the Bell Bay mill?

Mr GORDON - Correct.

CHAIR - Sorry, just to drill down on that. I thought you said that the specific contract for 100 000 was -

Mr GORDON - Correct. So we offered them a new contract.

CHAIR - At a new price? At the commercial rate.

Mr GORDON - Yes. As I said, if there was someone else that wanted to start up or operate a new mill, we would be happy to talk to them.

CHAIR - Would that potentially be in the same terms as Gunns currently have?

Mr GORDON - No. As I am sure you are all aware, it is pretty tight financially for everyone at the moment. That was a one-off deal done at the time for the specific purpose of keeping those Scottsdale mills open with a 100 000 cubic metre a year underwriting of them and once Gunns shut those mills that contract was at an end. Again, I think a mill at Scottsdale, if that was its only supply at commercial rates, would struggle. It would be much better to source some much cheaper cartage wood.

CHAIR - How much wood in terms of stumpage volumes for softwood has Forestry got that is not tied up with the joint venture?

Mr GORDON - There is the west coast wood and there is King Island that is at harvestable age.

CHAIR - Can you give the committee some idea o that?

Mr GORDON - A couple of hundred hectares. Most of the rest of it is quite young.

CHAIR - Okay. So on an average, say over the next 10 years, are you able to give -

Mr GORDON - There would be thinnings. The next biggest lump is at Meadowbank in the Derwent Valley. At the moment that is sold to Boyer for TMP and the sawlogs were being sold to FEA at Bell Bay, until they went into receivership, and it is an ad hoc sales arrangement at the moment for that. The rest of it consists of quite young thinnings.

CHAIR - Could you give us a ballpark figure over a 10-year average into the next 10 years, roughly how many cubic metres you would have for sale, marketable, of sawlog, not in the joint venture?

Mr GORDON - There would be the stuff on the west coast. I reckon there is probably 100 000 cubic metres left there. There is probably 100 000 cubic metres on King Island, if you can get it off the island at a price that someone can afford to pay for it.

CHAIR - Can I just clarify that? Regarding the west coast stuff, Bob, I think you said there had been 230 000-odd harvested rather than the 400 000 that you had, so that would mean you would have about 170 000 left there?

Mr GORDON - Yes, if the original assessment was right. In some coupes they have a lot more and in some coupes they have less. We haven't reassessed it but my experience in the forest industry would suggest that most millers go into the best areas first, not leave the best areas until last, so I suspect they have got the best of it. Over the five years some of it would always be harvested at the end because it had to grow that extra five years to get big enough. There would be at least 100 000, there may be a bit more, but we would have to do some inventory to check the remaining volumes. Again, it would depend on what the customer requirements were. For most of the wood in the north-east there is a good market for small logs -

CHAIR - For sawlog?

Mr GORDON - Yes, for sawlogs, because of the sawing technology. The Kelly gang at Mole Creek could handle quite comfortably big logs. There is another one that we sell the Douglas Fir to - Bates. They have different sawing technologies so the grade of logs that go to them has quite a narrow specification range.

CHAIR - You mean the private mills, Bates and Kelly's, because they are operating conventionally.

Mr GORDON - But the market they go into means that they need a particular grade of log. If you put an A-grade sawlog into there, it is probably not worth any more to them than a smaller log that has some defect in it because of the products they are going into. It's a bit the same with Bransholme. They would not necessarily be able to afford really high-grade logs because of the market price of the product that they're producing. If you go back to the west coast, you have to break it down. The work we did was based on the grade of logs that Auspine said it needed for the Ling Siding and Tonganah mill. I think you are asking a slightly different question to that. If you're asking how much wood would be available from the west coast if there were different markets, it is probably quite a bit more.

CHAIR - Okay. If someone set up a conventional set-up at Ling Siding, for example, for bigger logs then they could take a lot more than they can at the moment.

Mr GORDON - I think Ling Siding had a size constraint on the front with the breaking-down saw. I think it was 65 centimetres.

CHAIR - Yes, but if you put in something that was adequate to take bigger logs there might be some more availability.

Mr GORDON - The problem in general with the quality of our bigger logs is that they are quite rough so they tend to have bigger knots, more dead knots, a bit of non-straight grain because they are normally the edge trees or higher altitude, which is one of the reasons they are generally exported, because the local millers can't make money out of that grade of log. Some of the millers have size limitations. The FEA mill, at the front where they 3D align the logs, I think its maximum is 62 centimetres, or something like that, so some of these west coast logs may not be able to go into Bell Bay either.

Mr GUTWEIN - Obviously this committee has an eye to the past but also an eye to the future, what is your view in your capacity at FT of what the opportunities might be for that region and that town based on the potential resource that you know is available? We have been talking about softwood and whilst hardwood is a bit problematic because of the principles process at the moment, what is your view for hardwood operations in that town? Principally that is what this committee is about ultimately at the end of the day.

Mr GORDON - We have done a fair bit of work on looking at what options there might be, particularly if the Ling Siding mill were available for other people to process timber on it. I know Mr Booth has done some work on sawing with a Victorian company that we had some dealings with for a while and, as I have said to you, we are happy to do some trials but we had a few problems with arrangements with the company in Victoria. We tried to do the trials, but I think that is sorted out now.

CHAIR - I think we could work through that to get some stuff done. It would be good to get something.

Mr GORDON - We have done, as you know, an enormous amount of work in the last 10 years on rotary peeling and the logs that we sent to China and Korea for seven or eight years were for the purpose of developing the market which we did for eucalypt veneers in quite high-value, high-strength applications such as shipping container floors and some very specialised engineered wood products.

We have also developed some technology with the Chinese manufacturers of the equipment - the lathes, the dryers and the slicing gear - and we have currently again some large-scale trials going on in China on those and we believe that there is potential for one of those types of operations to be put at Scottsdale but you would need access. To go back a step, a large component of the capital cost and the risk in setting up a new forest processing venture is getting access to a site that has approvals - it can take a long time - and also having a front end and a back end so if you have to have a log yard with hard standing, you have to have log-handling equipment, you have to have a large shed, you have to have access to a chipper for the residues and a boiler and if you could just put in the widget in the middle that makes the wood processing, that is relatively low capital compared with the cost of setting up the whole site.

I think I came up to your committee late last year; it might have been November. Mr Gutwein was there but I do not think Mr Booth was there.

CHAIR - No, I wasn't there that day when you came.

Mr GORDON - We started then the process with Minister Wightman and DED of starting a feasibility study on looking at some of those options. We are well down the track on that and we are probably not that far off being able to release some of that. It is still with DED going through some of the economics of it but it all relies on having access to that Ling Siding site. It substantially reduces the capital you have to put in if you can get access to that site.

Mr GUTWEIN - What about the second site?

Mr GORDON - A lot of the gear has gone. It did have some challenges. They did the treatment there.

CHAIR - It is a pretty contaminated site.

Mr GORDON - Again, and I do not want to be flippant, but once a site is closed it loses a lot of its attraction and bits disappear. In the case of the boilers you have to redo the boilers because you do not have to have them shut down for very long and they get rust in the pipes but when they are working they are relatively cheap to run. It is like sawmilling gear. I think some of the gear has already gone from Tonganah. I think it went not long after it shut, whereas most of the gear is still at Ling Siding - certainly the handling, the sheds and the slabs are still there. It alters the whole risk profile of an investment if you have an investment-ready site.

Mr FERGUSON - What kind of feedstock might have another development there?

Mr GORDON - We are doing a whole lot of work on our hardwood plantation things. We were funded by Forest and Wood Products Australia to do some cutting-edge trials on using this material using a completely different peeling technology from that that Ta Ann has and grading the veneer that is produced using again some equipment that Ta Ann have not got that measures the stiffness or modular elasticity of the veneers on a live basis, so it grades it as you run which means that you can do gradings of the veneer so that the end customer can have exactly the right grade. I did not bring any samples with

me but if you go into a hardware store and buy an LVL beam then you will notice that if it is 45ml, it might have 15 layers of veneer in it. Each of those layers is set up separately for its position in the LVL and by putting eucalypt in, particularly towards the outside of the layers, you provide a stiffness that is not available from putting softwood in but it relies on having the MOE measured and reliably done because they sample something like a 10 per cent of it. This technology that we have developed with the Chinese we believe is able to do that sort of stuff.

Mr GUTWEIN - If having the site available is the issue, what is Gunns' attitude to that? Is Gunns in the mix as a potential partner or operator of this type of operation if it were to be established?

Mr GORDON - I suspect that with any operation at Scottsdale there are not enough hardwood plantation thinnings in the short term. It would have to rely on regrowth native forest wood as well and Gunns have made their intention quite clear, that they will not be involved in the native forest business. So that rules them out, pretty well.

You are probably both aware that we have been doing a whole lot of thinning operations in the regrowth forest from Mount Barrow on, in the forest that was clear-fall burned and regenerated in the 1970s and is now big enough to get logs suitable for peeling out now and that is probably the immediate source of this material because it is denser, it has a higher MOE.

Mr GUTWEIN - Is that where the protesters have been? Were they your coupes up there where the protesters were?

Mr GORDON - Yes, mostly in regrowth coupes. I think that with the roundtable discussions it has been much easier to have a discussion about the continued availability of clear-fall-burn regrowth and plantations than it has about the some of the other forests.

CHAIR - Bob, I might try to focus back onto the requirements of section 12A with regard to the Forestry Act with the requirement to take into account employment. Were you unsuccessful, for example, with the non-joint venture pine in selling that to Gunns, if that, in fact, did not continue and that wood was then available? What are the opportunities for marketing that in Tasmania? You have two choices, I suppose; it is cut here or it is exported. So what sort of discount do you apply in terms of section 12A if a local processor said, 'I can take this but I can only pay the \$12.50 that Gunns were paying', for example, and you might be able to achieve a higher price by taking it straight to the port and exporting it? What would your view be there?

Mr GORDON - We are not currently paid any community service obligations. So if this was Aurora and you want to give a discount to pensioners, then the Government pays a CSO for that.

CHAIR - But Aurora does not operate under section 12A of the Forestry Act either, does it?

Mr GORDON - No, but again, section 12A is part of the Forestry Act. We always have to have a sustainable economic return from the forests, and at low prices then you cannot afford to manage the forests.

CHAIR - I guess what I am interested in is where do you view your obligations under 12A then, where you have an application for the logs, as I said, say at \$12.50 as opposed to \$15 for export? What is the process?

Mr GORDON - We would have to take that into consideration along with the consideration about keeping people employed within Forestry Tasmania - as you know, we have almost halved the number of people in the last three-and-a-half years - and our requirement to get a fair economic return for the resource. So we get caught in the middle. Some people say we should sell the wood cheaper for domestic processes and then other people say, 'You are not doing enough to get the right high price for your logs'. So we get caught in the middle.

CHAIR - In terms of your return on equity for forestry, there is a complaint then if you do not deliver a decent return?

Mr GORDON - Correct.

CHAIR - Where do you see it then? How do you understand your obligations under 12A?

Mr GORDON - We take it into account as well as we take into account a whole lot of other obligations. If you read both the introduction to the Forestry Act and section 12, we have a whole series of obligations. I think 12A(c) is to make available 300 000 cubic metres of high-quality hardwood sawlogs. We have an obligation to maximise the benefits from the forests; we have an obligation to get an adequate return. We have to balance those competing objectives. One way to do that that is done in other areas, I think Telstra still pay the CSO for its universal service obligation. We are not paid a CSO for any of those obligations under the act.

CHAIR - Although you got the trees for free in the first place. That is not a bad business model in that regard.

Mr GORDON - Except that most of the trees that are now available we pay to re-establish.

Mr FERGUSON - Telstra is not a GBE either.

CHAIR - No.

Mr GORDON - No, but it was a government-owned company.

Mr FERGUSON - My point is that it is the State of Tasmania's timber. Forestry act on behalf of the people of Tasmania.

Mr GORDON - Which is what Telstra was.

Mr FERGUSON - I am defending you, Bob.

Mr GORDON - Good.

Mr FERGUSON - My point is that Telstra paid the USO since they were privatised.

CHAIR - Back to the question then, you say take it into account so has there ever been a case where 12A has overridden a commercial sale?

Mr GORDON - I think the example that we are talking about is probably the most recent example where we did decide for community reasons and to ensure that there was a processing option at Scottsdale to offer that contract to Auspine/Gunns at stumpage rates at below the market price.

CHAIR - But you now saying that you would not do the same thing?

Mr GORDON - I am not saying we would not; I am saying we would not have the same contract. The reason for that contract was the two Scottsdale mills needed probably 100 000 to make them viable. There would be a lot of other mills around or different processing options which would not require anywhere near that volume and if you need a lower volume, it is in everyone's interests to try to get the wood closer to where the processing operation is because the transport is what kills you.

CHAIR - I suppose what I am getting at is if there were to be some proposal for local processing sawmilling by whomever in Scottsdale, a greenfield site even on one of the old sites, it does not really matter, will 12A influence then the actual price that you would be able to buy wood for them for?

Mr GORDON - We have to take 12A into account and we have to take a whole lot of other things into account like the shareholders' expectation and the community's expectation of us getting a fair market price for our products.

Mr FERGUSON - Can I supplement, Chair, your question by putting it to you, Bob, that in 2007 when the then Lennon Government were scrambling to do something for Scottsdale given the upheaval that was going on at the time, the Forestry Tasmania-led contract to provide the 100 000 cubes a year to Auspine at that time was not to give Auspine resource, it was to give that community resource. Otherwise you would not have discounted it in the way that you did.

Mr GORDON - Correct.

Mr FERGUSON - Can I put that back to you in that context and ask you to consider responding, having heard that. The point is that without resource, a community does not have an industry. We are less concerned about the companies concerned; they quite properly need to stand on their own feet in an entrepreneurial, capitalist society. I think that what the Chair was getting at and what I would get at as well is that the community are still in a significant resource deficit and if there was another model that could be viable, why would not Forestry Tasmania provide similar terms and similar discounting to provide the resource back to the community?

Mr GORDON - At that time that arrangement was done your summary is correct and the reason that the contract says that it had to be processed at Scottsdale was that it was about the Scottsdale community not about Auspine -

CHAIR - Was that decision through ministerial direction?

Mr GORDON - No, I do not think that Forestry Tasmanian has ever been given a ministerial direction since its corporatisation. It was about making sure that there was some capacity to keep those mills going under whoever's ownership and as soon as the mill is shut, the contract is at an end.

The reason I outlined the potential for the hardwood industry, Mr Gutwein's question, was in my view it is much, much more likely that there will be some sort of hardwood-processing option at that site because I cannot see how the west coast or King Island resource under any circumstances could support a viable, reasonable-sized mill at Scottsdale. That is the problem. For instance, Gunns have quite a large plantation pine estate themselves. They have been exporting pine logs. They have obviously made the decision that they do not want to process those logs at Scottsdale; it is a long way from Burnie to Scottsdale - a hell of a lot longer from the west coast.

Mr FERGUSON - Just on that then, if Scottsdale were to re-tool, gear up and also get a business model that works and have a proposition for a hardwood mill in Scottsdale which presumably would be some combination of rotary peeler and sawmilling, is that what I am hearing from you? Have I summarised correctly?

Mr GORDON - We have been working on the request from Minister Wightman on the hardwood road or the veneer option and we have been funded by the Department of Economic Development to do that.

Mr FERGUSON - Okay, so sawmilling was not part of that?

Mr GORDON - It was not part of it -

Mr FERGUSON - Okay.

Mr GORDON - because we did not think under all the technology that we know of and given the statement of principles process we had to focus on smaller regrowth and plantation logs. The economics of processing is much, much better for rotary veneer than it would ever be for sawing because once sawlogs are less than 30 centimetres, the widest piece of sawn timber you can mathematically get out of your quarter saw is about 150 millimetres. That is assuming it is perfectly round, there is no pith, so you are not going to get much premium-grade timber out of small logs.

Mr FERGUSON - Okay. Thanks for correcting me. I was not trying to mislead you. You have half answered my question now because I was going to put to you will you give an assessment of what the business environment might be like for hardwood milling in Scottsdale if the Statement of Principles were to be enacted and secondly, if it were not to be enacted?

Mr GORDON - It is a bit hard to do that without knowing the likely outcome.

Mr FERGUSON - Well, let me rephrase; under current legislative and reserve provisions in this current environment compared to a potential environment were the Statement of Principles to be enacted.

Mr GORDON - But in the Statement of Principles there are several competing objectives and as far as I am aware from the last meeting I went to about two weeks ago, there was still no agreement about how much wood was needed because that agreement had not been reached.

Mr FERGUSON - How much wood was needed for what purpose? For reserves or for industry?

Mr GORDON - They are the two competing objectives. The ENGOs said they would like this much and the processing sector said they would like this much, and the two things are not the same and they were attempting to negotiate.

At the moment most of Forestry Tasmania's high-quality sawlogs are under contract to others and so the reason we were focusing on logs that currently are not used by the current processing sector, which also happened to be the logs from plantation thinning or early clear-fall and young regrowth, was about trying to find a resource that could be profitably processed but was not directly in conflict with what we thought would come out of the Statement of Principles.

Mr FERGUSON - That is fine. Is the Statement of Principles in any way going to assist or hamper a business case for a development of milling of any kind in Scottsdale? Yes or no? That is what I am getting at; I am going around it here, but now you are just going to have to tell me. You are going to have to give me some objective assessment as to what a potential enactment of the Statement of Principles might do to a potential business in forest value-adding in Scottsdale.

Mr GORDON - If the work that we have done on logs that are from native forest thinning, from segregating smaller logs from clear-fall native forest where it is wet forest and from plantation thinnings in my view there is minor conflict over some of that resource, although in the ENGO-proposed reserve map there are large areas of regrowth and eucalypt plantations but I do not know whether there will end up being negotiation to remove those areas because I am not party to the principles.

Mr FERGUSON - So you are not willing to say that an enactment of the Statement of Principles gives any form of security to a potential venture in Scottsdale, are you?

Mr GORDON - Or to say that it causes a problem.

Mr FERGUSON - No, you have very carefully avoided that.

Mr GORDON - Correct.

Mr FERGUSON - But you have also not been able to give any security at all?

Mr GORDON - If the feasibility study that is being worked on goes to the next stage of talking to potential investors then Forestry Tasmania has prepared a contract for the grade of wood that we know is necessary to successfully peel but execution of that contract would be subject to some outcome from the statement of principles.

CHAIR - I just want to go back to the opening remarks you made with regard to Auspine not investing in sawmill technology. Could you articulate to the committee a little bit more clearly what you meant there because my recollection of that - and this is not to be taken as the absolute fact because it is pretty rusty - is that I think that Auspine paid something like \$27 million for that mill only a year or so before this situation arose and they had spent \$10 million on a small log line some years before that at the other mill. So \$27 million and \$10 million is \$37 million. I can think of \$37 million minimum, probably more like \$50 million investment over a few years. How do you justify or substantiate that? I am not accusing you of anything; I am just asking can you justify that?

Mr GORDON - There are two questions behind that. One is was the sort of investment that was made appropriate for the mills and was it appropriate for the resource? In my view French had spent money on designing the Ling Siding mill to maximise the value of recovery by putting that breaking-down saw in and being able to turn and cut pruned logs to get recovery. They did invest in the lamination plant and the component plant at the end which I think they shut down after about 12 months because it was an investment that was not paying off -

CHAIR - So when you are saying Auspine, you are also talking about the investment that Frenches had made over the years that Auspine then effectively acquired?

Mr GORDON - Yes, and in my view there needed to be a substantial reinvestment and, again, all of the future resource characteristics, whether it was pruned, part-pruned, size of logs, the drop-off in sawlog volume caused by the lack of planting in the 1980s have been described to both Auspine and Frenchpine. In my view Frenchpine took that and spent the money on the mill so that they were in a position to take advantage of the future resource characteristics by having a mill suitable for grade recovery rather than structural timbers and Auspine made different investment decisions. There appeared to be a mismatch between the type of investment that was being made particularly by Auspine and what I knew about the Frenchpine resource characteristics.

CHAIR - Although it is my understanding that the contracts that French had for log supply were of a better grade and class than Auspine got as a result of the old deal and so forth.

Mr GORDON - As I said, there is a huge gradient between a structural grade 20 cm log and a part-pruned or pruned 50 cm log and French paid the premium.

CHAIR - It is my understanding - and you can refute this because this is anecdotal to the degree that I dealt a lot with both of those mills over the years - that Auspine always had trouble getting a decent log specification - a cut wide board, for example - so French had more pruned wood and a better log grade allegedly - less blue stain et cetera.

Mr GORDON - I think that is probably a bit of a circular argument because I do not believe that the Auspine mill set-up -

CHAIR - Could have handled it?

Mr GORDON - Could get grade recovery anywhere near like the French mill set-up could. You could get Kevin back and ask but I am pretty sure that is what he would say - that he

made an investment decision that the Ling Siding mill was cutting for value recovery and Auspine made a decision that the Tonganah mill was cutting for structural recovery, and, as you know, they are quite different milling set-ups.

CHAIR - The point I am getting at there is was that driven because they simply could not get access to the sort of log that French was getting?

Mr GORDON - No, I do not believe that. There were multiple opportunities in the last 15 years because both of those mills had contracts expire and new contracts to put proposals to the forest owner for basically a different pricing of different grades of logs and in my view French did that and backed it up with reinvestment in technology. They had a high-tension bandsaw to do that initial breaking down, which means that you get heaps more recovery because of the accuracy of the cut. So it is a different sort of technology and mill flow if you are cutting for grade recovery with structural grade as a fall-down rather than the starting point is on the recovery of structural grades. The mills were quite different which is why we believed that 100 000 cubes of reasonable grade logs from the west coast could have been sufficient to keep the Ling Siding mill, but obviously Gunns/Auspine made a different decision.

Mr FERGUSON - I would like to come back to my previous line of questioning. I have just been thinking about what you said about a potential future contract. I think you said that depending on the business case which is being developed, I think at this time in part with Economic Development -

Mr GORDON - Economic Development funding it?

Mr FERGUSON - Yes.

Mr GORDON - It has gone back to them for review, questions, quizzing basically on the economic analysis.

Mr FERGUSON - Did you say that Forestry Tasmania has already prepared a contract?

Mr GORDON - We have prepared the resource we believe is available under different scenarios and the scenarios are that more wood is available obviously if you take smaller logs and less wood if you take bigger logs. We would be in a position to offer a contract to anyone that was attracted to the potential investment.

Mr FERGUSON - Might that be almost like an invitation, a prospectus?

Mr GORDON - I think so, correct.

Mr FERGUSON - That would be quite good if that is the case. What does that drafted contract currently say about the Statement of Principles?

Mr GORDON - With all of our draft contracts, whether with sawmillers or with other people, we have put a covering note saying, 'The execution of this contract is subject to an outcome from the Statement of Principles'.

Mr FERGUSON - What does that actually mean?

Mr GORDON - One of the clauses in the Statement of Principles was not new, I think it said 'licences', I still do not know what licences are, to be written during the negotiations. We were not a party to it, we were not asked about it but we have said that we are attempting to give the parties to the Statement of Principles every opportunity to sort it out. Originally we were told that this was all going to be sorted out by now. We obviously have to discuss with Mr Kelty's process what that means if there was an opportunity for a new process. In my view if you had a continuum from contentious to non-contentious, this is down at the non-contentious end.

Mr FERGUSON - I agree with that too but I am trying to understand the actual role of that cover note.

Mr GORDON - We all know about the Statement of Principles but when I talk to people on the west coast, the US or China I probably am talking Mandarin; they have no idea what that means.

Mr FERGUSON - What I am getting at is, is it a way of warning them that their contract may in fact not be deliverable by Forestry Tasmania?

Mr GORDON - It is putting a flag there to say that this process is going on and it may or may not change the resource availability.

Mr FERGUSON - Again, with respect, what I am getting at here is to the potential proponent of a development who might be looking at your prospectus/contract, draft contract, is it a way of you saying to them you can sign this with us but we may actually default on it?

Mr GORDON - No, it is a way of saying this is an issue we need to discuss and when we get to the end of the negotiation if the Statement of Principles still has not had a conclusion then we will have to make a decision.

Mr FERGUSON - Does it mean that a potential proponent will not be in a position to sign a contract with you, with Forestry Tasmania?

Mr GORDON - I think in the case we are talking about most of the work will revolve around the technical processing aspects and the markets for the veneer, which is what we have done most of the work on. We have also flagged that there is also a reasonable amount of non-Forestry Tasmania-owned regrowth native forest and plantation in a reasonable catchment at Scottsdale that is also potentially available.

Mr FERGUSON - I accept everything you are saying there and I am not trying to argue or be difficult about that. What I am trying to get at is the role of this cover note. It seems to me that it is a great way to scare people off.

Mr GORDON - The intention is not to scare people off, it is to make people aware that there is a process going on.

Mr FERGUSON - Can you agree that it could be perceived quite easily that that is a red flag for a potential investor from overseas who has never heard of the Statement of Principles?

Mr GORDON - And never heard of Tasmania and thinks it is somewhere in Africa?

Mr FERGUSON - Yes, that is the question.

CHAIR - Well, I think -

Mr FERGUSON - He has not had a chance to answer that.

CHAIR - I think he has actually answered it a number of times.

Mr GORDON - I can understand how it could be perceived but our intention is not to scare off investors, it is to make them fully aware of the circumstances at the moment and our intention is that if this does look to be a viable economic opportunity, we would go back to the Statement of Principles parties and say, 'Here is a proposal that we have. We are asking your views. We are not asking permission'.

Mr FERGUSON - Thanks.

CHAIR - Thank you. Just to clarify that then, at this point in time the resource itself has not been fully identified and assayed to be adequate to meet any particular development?

Mr GORDON - We have, we have. We have done all the work to suggest there is a minimum volume available but in our view subject to DED's review of the business model - the input, outputs, the costings and the sales prices - there is a minimum volume available from regrowth native forests and hardwood plantations to make it worth going to the market.

CHAIR - What volume is that?

Mr GORDON - A minimum of 50 000 cubes and again, as I said before, part of it is about timing. Most of our plantations in the north-east do not really come onstream for another two or three years but we have a fairly substantial native forest regrowth estate that is currently being harvested and part of this is about like with the Ta Ann mills doing a product segregation so that part of the regrowth pulpwood that is suitable for this particular process goes into that rather than woodchip.

CHAIR - What effect does the royalty that you have been locked into with the Ta Ann project have on the bottom line of Forestry in terms of being able to generate a decent ROE?

Mr GORDON - With Ta Ann it is a mill-door price so the principal driver is transport distance. Particularly in the last six months while the Statement of Principles process has been going on and particularly as both the Huon Environment Centre and Still Threatened Still Wild have targeted regrowth coupes that feed Ta Ann we have struggled to meet their demand.

CHAIR - In other words, you are saying that the price you get is so low for the wood in terms of royalty that if you have to drive the truck carrying it more than another -

Mr GORDON - 150 kilometres.

CHAIR- It becomes unviable.

Mr GORDON - It becomes less viable.

CHAIR - It is low margin, isn't it, really when you look at it if it is not worth carting 100 kilometres.

Mr GORDON - No, it is not worth carting an extra 100 kilometres.

CHAIR - Yes, I know. That is what I'm saying.

Mr WIGHTMAN - It sounds like the environmental action might be causing some problems there.

CHAIR - Well, it depends. The business model is pretty thin then if you cannot afford to cart it another 100 kilometres.

Mr WIGHTMAN - Oh, you can't defend that.

Mr FERGUSON - Chair, you walked right into that one.

Mr WIGHTMAN - You can't defend that.

CHAIR - It is a statement of fact; that is the problem with a lot of these businesses. You don't understand economics, Mr Wightman, if you can't understand that simple proposition.

Bob, with regard to the effect on the economy of Scottsdale as a result of the loss of the log supply, which is effectively what this committee is looking into, have you any data? Did Forestry Tasmania do any research with regard to the economic loss to that area?

Mr GORDON - I think there was a report by the Dorset Economic Group about three years ago.

CHAIR - Yes, I was just wondering whether Forestry Tasmania had done anything at all yourselves.

Mr GORDON - No, we normally do not do that sort of socioeconomic modelling. When it is done it is done by someone else, whether it is DED or Dorset. I think we were asked by Tony McCall, it would have been three years ago. I think we provided some data - it might have been through the CRC - on some work that had been done on breaking down the Monash input-output model and then subdividing it back to separate out the forestry stuff because in the standard input-output model, for instance, log truck drivers go into the transport sector, people who work for Forestry Tasmania for some reason go under government administration - they are not actually counted in Forestry. So in a place such

as Scottsdale where I think we have 60 employees, if you do the standard modelling none of those come out as Forestry; all the log truck drivers come out as Transport. So we did some work with I think it was Felmingham and did a survey where everyone participated and actually did a breakdown by their employees into what they did and where they went in the ABS reporting.

CHAIR - But nothing yourselves, like you provided data?

Mr GORDON - No.

CHAIR - So there is no other modelling or reports?

Mr GORDON - Only the stuff that I think Dorset did. I think it was three years ago.

CHAIR - What effect did it have on your operation then, the transfer of the log supply to Bell Bay as opposed to Scottsdale?

Mr GORDON - It did not really have any effect on Forestry Tasmania other than the subsidy we effectively supplied for the west coast logs to Scottsdale which lowered the return we otherwise would have got from those logs, which I think were reported certainly in our own accounts as a CSO but, as I said, we were not funded for it. Obviously the angst and disruption to the Scottsdale community had an effect on our staff but that is difficult to put an economic model on.

Mr FERGUSON - Bob, I would ask you to consider this. I will not ask you for an answer today but I will ask you to consider this and perhaps at your option to come back to us with an answer.

Considering that there is a potential for a softwood resource which was the subject of an agreement with Auspine and then Gunns for the provision of west coast and King Island resource and that that was discounted by approximately 50 per cent so that was a real contribution by Forestry Tasmania to at least provide some resource assistance to the Scottsdale community, in that context I will ask you to consider applying the residual of the value of that in dollar terms, not in timber terms, to a future contract that might be established with a potential new venture in the Scottsdale area, albeit on a hardwood basis, because it seems to me that there was a good faith contribution by Forestry Tasmania to locate and provide timber at reasonable terms to the Scottsdale community, to industry, that has not been fully subscribed and in that instance you will now be able to allocate that timber at a market price to other players in other places around the State.

I hope I am making sense. The question I ask you to either answer now or take on notice is to assess what is the residual discount that has not been taken up by Scottsdale industry and to seek to apply that to a future agreement.

CHAIR - On 100 000 cubic metres a year and a discount of \$10 it would be a million dollars a year you would be wanting Forestry to provide as a CSO.

Mr FERGUSON - I will put it in some context.

Mr GORDON - It is a complex question.

Mr FERGUSON - I think back in 2005-06 and 2006-07 we probably made \$15 million or \$20 million but we are not in that position anymore. I think the way I framed the question explains why you might consider it and so I will ask you to take it on notice.

CHAIR - Just for the clarity of *Hansard* what you are actually saying, Michael, is that the 100 000 cubic metres a year that had been agreed to be provided at a discounted rate -

Mr FERGUSON - For five years.

CHAIR - and I think Bob said \$12.50 instead of maybe \$25 so that is roughly a million dollars a year you would be expecting as a subsidy or you would be looking for out of that.

Mr WIGHTMAN - And there is a year to go.

Mr FERGUSON - I used the word 'residual' discount and that must have a paper value that could be applied to a future agreement which may be over a longer period. It is a question around the principle of ensuring that Scottsdale gets its fair measure of the support that was provided by Mr Lennon's Government four years ago.

CHAIR - I thank you, Mr Gordon, for appearing today. Hopefully we will not need to recall you.

THE WITNESS WITHDREW.