



SUBMISSION No. 113
Inquiry into the Australian forestry industry
HOUSE STANDING COMMITTEE ON AGRICULTURE, RESOURCES,
FISHERIES AND FORESTRY

INQUIRY INTO THE AUSTRALIAN FORESTRY INDUSTRY

PUBLIC HEARING

TUESDAY 28 JUNE 2011

INTRODUCTION

The position of the Tasmanian Country Sawmillers' Federation (TCSF) was put to the Kelty Review in March of this year. As the position has not changed, we consider it appropriate to provide the same information as a backdrop to the Federation appearing before the House Standing Committee on Agriculture, Resources, Fisheries and Forestry Inquiry into the Australian Forestry Industry. Given the inherent limitations of the Federation, we will be limited to making comment on the Tasmanian timber industry and do not purport to have knowledge of the wider Australian industry.

The Federation is committed to the Statement of Forest Principles signed on 14 October 2010 and views this document as the best chance for the parties to it to achieve an enduring agreement. Our position is therefore strongly influenced by it.

POSITION OF THE TCSF

On the 17 Jan 2011, Mr Bill Kelty, Facilitator by joint appointment of the Australian Federal Government and the Tasmanian State Government met with Tasmanian timber industry representatives at Rydges Hotel, Hobart, Tasmania. Mr Kelty asked the representatives to respond to two issues:

1. 'Is the Tasmanian Forests Statement of Principles to lead to an Agreement', (the principles), signed by 10 parties on 14 Oct 2010 an historic document?
2. Consider the implications of:
 - (a) Implementing the principles
 - (b) Not implementing the principles

On 11 Feb 2011 an email from Joel Bowden, personal assistant to Mr Kelty, further requested that each party be prepared to present at a meeting in Hobart, 15-17 Feb 2011 on the following:

- (i) Each party's understanding of the principles
- (ii) A priority list of the principles
- (iii) An overview of the principles by each group as a starting point
- (iv) Tabling a factual position

PREAMBLE

In order to contextualise responses to issues raised by Mr Kelty, a brief history of Tasmanian country sawmills is offered, together with a description of their present characteristics.

It is important to recognise that the Tasmanian Country Sawmillers' Federation (TCSF) does not have staff. Federation work loads are spread among directors who also conduct their own enterprises. Research capacity is very limited. Knowledge is often very detailed at a local level, but beyond that, may be anecdotal and lack empirical facts, particularly for statistical data which is often deliberately avoided. Nevertheless, the repository of knowledge of the country sawmilling sector of the industry is the TCSF.

Brief History

Until the establishment of the Tasmanian Forestry Commission in about 1933, a lack of adequate state structure probably meant all sawmills were country sawmills. The recently determined (2005) definition of a country sawmill is 'a mill that historically sources log supply from private land', (i.e. non Crown land). Until about the mid 1990s, there was sufficient private land resource to feed country sawmills direct, declining in number from hundreds of mills in the 1930s to 85 by 1990. Log abundance during that 60 year period created a two tiered mill system. Mills that predominantly sourced logs from the Crown (crown mills) and mills that sourced log supply from private land (country sawmills). Over time, many smaller crown mills were purchased for their log allocation by other crown mills, thus reducing the number of crown mills. The reduction in country sawmills tended to be by attrition rather than buy out.

From the mid 1990s, logs sourced from private land reduced dramatically. This coincided with government decisions in 1987, 1998 and 2004 to reduce areas of state owned production forest. In effect, government policy eliminated the alternative log supply for country sawmills. This condition was the primary (but not only) cause of the reduction in country sawmills from 85 mills in 1990 to 45 mills in 2005 and 26 mills in 2011. Their number continues to reduce.

In circa 1995 Forestry Tasmania (FT) succeeded its commission predecessor, changed the log sale modus operandi from a perceived notion of crown right to a contract of supply and made available, by tender, some category two logs to non contractual country sawmills. The nexus was broken. As private sources have continued to decline, country sawmills have increasingly relied on FT for log supply.

Present Characteristics

The Regional Forestry Agreement (RFA) covering the period 1998-2017, together with the Tasmanian Forestry Community Agreement (2004), created encouragement for investment by country sawmill owners. Of the remaining country sawmills, the majority have invested in the vicinity of hundreds of thousands to millions of dollars in their businesses. Yet only five have the security of a contract of supply with FT. In terms of supply, there are three categories of country sawmills:

- (a) Those mills that have contracts with FT and solely or predominantly source their log supply from FT.
- (b) Those mills that predominantly source log supply from private land and on a cash, up front basis from FT.
- (c) Those mills that source log supply only from private land.

Log volume usage by all country sawmills equates approximately, in aggregate, to the rest of the industry, but no doubt with a large standard deviation of consumption. Mill volume intakes vary, from about 3000 M3 p.a. for a couple of push and pull mills to 70,000 M3 p.a. for a sophisticated single purpose mill. The median mill is likely to be 10,000 M3 p.a.

History has created a two-tiered mill structure in Tasmania. No criticism is offered of that history. Its effect is a tier of privilege and a tier of non-privilege. This has resulted in a distortion of wealth distribution. This distortion has been aided and abetted by an imperfect market which has deteriorated in concert with the drying up of private log supply. The inequality of wealth distribution is being driven home with a vengeance with the reduction in prices obtained for sawmill residue. Mill owners have traditionally relied on revenue from the sale of woodchips for their reward.

The present factual position is that mills with no contractual access to category one logs (a state that precludes vertical integration) are no longer viable. The majority of country sawmills are among the non-privileged and with the reduction in residue prices are not making money.

Fred Ralph
Director

ISSUES RAISED BY MR BILL KELTY ON 17 JAN 2011

1. Is the principles document historic? See ANNEX A.
2. Consider the implications of:
 - (a) Implementing the principles. See ANNEX B.
 - (b) Not implementing the principles. See ANNEX C.

STATEMENT TO BE PREPARED PER JOEL BOWDEN EMAIL OF 11 FEB 2011

1. An overview of the principles by each group as a starting point. See ANNEX D.
2. Each party's understanding of the principles. See ANNEX E.
3. Priority list of the principles. See ANNEX F.
4. Tabling a factual position. See ANNEX G.

The following issue was posed by Mr Bill Kelty to the 10 signatories (meeting separately as industry and Environmental Non-Governmental Organisations) (ENGOS) in Hobart on 17 Jan 2011.

ISSUE 1

‘Is the Tasmanian Forest Statement of Principles to lead to an Agreement’ (the principles) signed by 10 parties on 14 Oct 2010 an historic document?

Historic may be defined as noteworthy, significant, noted in history. History will flow like the current of a river over which we have no control. Our contribution will be how well we steer the boat in the current. Climate change is part of the current, the principles are the boat.

The Tasmanian Country Sawmillers’ Federation (TCSF) members are experiencing stress in their section of the industry, and it is against that backdrop, that TCSF committed to the principles, cognisant of their significance to Tasmania. In referring to the principles as historic many commentators have been sectarian and therefore, unfortunately narrow in their views. For example, there has been an over emphasis on the historic value of the principles in saving Tasmania’s forest, and a lack of emphasis on saving Tasmania’s timber industry. The signatories must achieve a balance.

The principles are not perfect and depending on interpretation, some may be incongruent. The significance of the principles is in their existence as they express clear intent by the signatories to address the fabled triple bottom line. The principles represent a circuit breaker to 25 years of bad behaviour and provide opportunity, at a community level, for all the signatories to gain understanding of all views and produce a workable solution to all historic problems in the full light of today’s environmental, social and economic imperatives.

The principles document is significant for the opportunities that ought to be exploited. The quality of the final agreement begs us all to build trust and goodwill. In the words of Kant “the only good which does not require qualification is goodwill”. The extent to which the principles will be noted in history will be a function of developing goodwill now.

The following issue was posed by Mr Bill Kelty to the 10 signatories (meeting separately as industry and Environmental Non-Governmental Organisations) (ENGOS) in Hobart on 17 Jan 2011.

ISSUE 2

Consider the implications of:

a. Implementing the principles

A characteristic of the principles is that the process is stakeholder led and has a breadth across four Federal Ministers helping to ensure that the benefits of successful implementation are likely to have wide, positive ramifications. The level of ministerial interest is therefore more likely to be heightened than if the effect of implementation was more limited.

The first and enduring effect of implementation must be an end to the forest wars. Those wars have had a gut wrenching effect on the Tasmanian community. It is now up to all stakeholders to jointly and severally accept responsibility for the triple bottom line. Should that be the strategy for the future, a structure to achieve this will be required.

Implementation provides opportunity for the community to wrest control from both government and market cycles which have both been significant contributors to the levels of angst, disharmony, disruption and public dissatisfaction with forestry management in Tasmania. We now live in a continuing era that when a clash occurs between the environment and production, the environment will prevail. The protection of high conservation value (HCV) coupes provided for in the principles, with limitations, will result not only in the protection of areas which we all ought to applaud, but will be a major factor in reducing disruptive forest protests.

The principles provide for a pulp mill. We should at an early stage recognise this means the Bell Bay pulp mill. The industry should be unequivocal in its support for Gunns Limited and the ENGOS should not be against the mill if it meets all regulatory requirements. The economic value to the state, in per capita GDP terms, is significant.

Implementation provides the chance to dispassionately review the industry in all its aspects and to consider a wide range of uses of forest products e.g. bio mass. A strong future for a growing industry can be planned as a result of implementation. The industry has not had the benefit of a comprehensive long term plan. A 100 year plan is a reasonable expectation from implementing the principles. Such a plan would likely lead to regional development opportunities which might attract support by the Federal Government.

B2.

In summary, implementation calls on all participants to contribute to the triple bottom line, protection for the environment, the development of a viable, sustainable value adding growing industry with new industry sectors in the future.

Disadvantages

There will also be disadvantages of implementation and like the Enclosure Act in England some will be disadvantaged. Early resource reduction will result in mill closure and job loss. A sensitive and adequate response will be required. Successful implementation will depend on considerable amounts of public money being available. This may lack popularity with governments not displaying an expansive mood.

The following issue was posed by Mr Bill Kelty to the 10 signatories (meeting separately as industry and Environmental Non-Governmental Organisations) (ENGOS) in Hobart on 17 Jan 2011.

ISSUE 2

Consider the implications of:

- b. Not implementing the principles.

Firstly the 10 signatories, in signing the principles did so, understanding commitment to 'Support for and delivery of all principles in full'. Despite some consequences being obvious, it is instructive to consider the consequences of non-implementation. While some industry sectors are experiencing stress, other sectors of the industry are in the peculiar situation of not knowing the future, yet there is a sense that today has normality. The industry has sustained a painful wound with a drop in residue prices but log supply is satisfactory. For many mills there is a sense of a phoney war, a sense that would be shattered with non implementation of the principles.

An effect of non implementation would be an immediate and heightened level of protest in forest areas and at mill sights. It could be expected that mainland retail outlets selling Tasmanian timber would be disrupted by protestors exhorting the public to boycott purchasing Tasmanian timbers. Such protests may expand to other Tasmanian products. Corporate board rooms e.g. Coles and financial institutions could be put under pressure to disassociate themselves from Tasmanian timbers and other products. This scenario would quickly lead to industry collapse.

If present harvesting continues, environmental damage may result, especially in high conservation value (HCV) areas. This would certainly inflame the level of protest. Heightened conflict within the Tasmanian community would further polarise attitudes in already bruised communities.

The pulp mill project, in the face of widespread protest, would not be sustainable, as would the Tasmanian economy for probably the next 30 years. The Tasmanian population would likely decrease along with real estate prices. Tasmania would have all the glowing future of a geriatric hospital in a national park. In such a high tension environment there may even be loss of life.

C2.

Advantages

Leaving the future of the timber industry to unfettered conflict and fairly quick destruction would obviate the need for governments to provide large sums of money for industry restructuring and compensable exits. Released sections of the workforce would be available for redeployment to major mainland projects e.g. mining, that currently have labour shortages.

Summary

In summary, non implementation of the principles would generally result in protest at unprecedented levels. Industry collapse would soon follow and the pulp mill would disappear, taking with it the Tasmanian economy.

All signatories have a desire and will to contribute to a better environment, improved social benefit and a profitable timber industry. Failure to implement the principles is not an option.

Statement to be prepared per Joel Bowden email of 11 Feb 2011

1. An overview of the principles by each group as a starting point.

The Tasmanian Country Sawmillers' Federation (TCSF) signed the 'Tasmanian Forests Statement of Principles to lead to an Agreement' (the principles) at Launceston on 14 Oct 2010. It did so against a backdrop of developing stress and uncertainty for country sawmills and a state of extreme stress being experienced by log harvesting and haulage contractors and their employees. TCSF signed the principles document entirely of its own volition, and in doing so, unreservedly committed to implementation.

Progress in implementing the principles is heavily dependent on goodwill, the only good that does not require qualification. The intended outcome of the principles are:

- a. A better and protected environment.
- b. Increased social benefit to the Tasmanian community.
- c. An enhanced timber industry with a planned long term and profitable future.
- d. A willingness to provide exit assistance where required.

The 10 signatories signed to commit to all principles. There is no room to 'cherry pick'. All signatories must gain understanding of the outcomes sought by each representative group. The indispensable outcomes include:

- a. Environmental protection.
- b. Adequate resource supply and economic residue disposal.
- c. Voluntary compensable exit.
- d. Social gain for the Tasmanian community.
- e. An industry which plans for diversification, value adding, growth and profitability.

The principles provide their own foundation for their incorporation into an agreement and necessarily their final expression is a long term industry plan to the enterprise level.

Statement to be prepared per Joel Bowden email of 11 Feb 2011

2. Each party's understanding of the principles.

The Tasmanian Country Sawmillers' Federation understanding of the principles is that it is their intent to:

1. To be a circuit breaker to the present modus operandi of the industry which is:
 - a. Environmentally not acceptable to a public increasingly conscious of climate change.
 - b. Non viable in that the loss in some sections of the industry equates to the profit made in other sections, i.e. overall the industry is not making a margin.
2. Restructure the industry by:
 - a. Determine an environmentally sustainable resource supply.
 - b. Over time transition the industry to a plantation base.
 - c. Introduce new industry sectors e.g. laminated veneer lumber (LVL) plants.
 - d. Increase value adding processing.
 - e. Adequate compensable exit programmes for those enterprises that volunteer or are required to leave the industry.
3. Environmental protection by progressive implementation of a moratorium on the logging of high conservation value (HCV) forests.
4. Assistance to communities adversely affected by changes to the industry in the form of identification of new industries to provide alternative employment.

Statement to be prepared per Joel Bowden email of 11 Feb 2011

3. Priority list of the principles.

The following are the selected top five priority principles.

- Priority 1. Progressive implementation of a moratorium.
- Priority 2. To determine guaranteed sustainable quantity and quality of wood.
- Priority 3. To provide exit assistance for industry where required.
- Priority 4. Development of a plan to deliver the principles.
- Priority 5. Implementation of the principles.

Statement to be prepared per Joel Bowden email of 11 Feb 2011

Tabling a factual position.

This factual position is prepared against some historical data.

- a. Since 1990 country sawmills have declined in numbers from 85 to 26.
- b. Most country sawmills measure investment in the millions of dollars with the majority of investment occurring during the past 12 years, and in particular, the last five years.
- c. Most country sawmills are green mills.
- d. As private log resource has decreased country sawmills have increasingly relied on Forestry Tasmania (FT) for log supply. Such log supplies tend to be lower grade logs.
- e. Some mills receive logs from surplus log harvesting production – the classic Malthusian trap.
- f. Log consumption varies from 3,000 to 70,000 M3 p.a. with an estimated medium of 10,000 M3 p.a.
- g. All country sawmills sell solids into the Australian domestic market and residues to chip exporters.

Factual Position

- a. The exchange rate of the Australian dollar coupled with a lowering of the international woodchip price for native forest sourced woodchips has generally lowered sawmill woodchip prices from \$67.00 to \$42.00 per tonne. This has had a debilitating effect on sawmill viability, particularly green mills.
- b. There is now strong competition in international markets for the supply of eucalypt woodchips e.g. Vietnam is increasing output from 0.5 million tonnes to 4.5 million tonnes at a reported price of AUD 55.00 per tonne.
- c. There are strong alternatives to Tasmanian suppliers of chips within Australia e.g. the green triangle.
- d. Log size (age) and grade is declining while log prices continue to rise.
- e. Most country sawmills have unfulfilled order books but at prices 20 to 30 per cent below value. This is a combination of spot market sales and the price at which imported timber is sold.
- f. Most country sawmills are weary of the forest wars and the uncertainty as to their future which accompanies every enquiry into the industry. The majority of country sawmills would accept a fair compensated exit package if it were offered.

G2.

- g. Mills continue to receive adequate volumes of logs but with a sense of ‘what will happen tomorrow?’. There is a pervasive sense of uncertainty.
- h. The overall factual position of country sawmills is twofold:
 - (i) Adequate resource and economic disposal of mill residues or
 - (ii) Compensable exit of the industry
- i. Several country sawmills are confident of their ability to convert plantation logs into boards for kilning but show no enthusiasm to carry out the kilning process.



**House Standing Committee on Agriculture, Resources, Fisheries and Forestry
Inquiry into the Australian Forestry Industry
Public Hearing
Tuesday 28 June 2011**

1. Observations on the present state of the Tasmanian timber industry
2. Log supply:
 - a. The present system
 - b. An even playing field
 - c. Log reclassification – Tasmanian species plantation
3. The effects of the anticipation period on regional mills:
 - a. The RFA
 - b. The economic ripple
 - c. Future stability and peace
4. An industry plan:
 - a. Resource availability and allocation
 - b. Best economic outcomes
 - c. Future markets
 - d. FSC certification
 - e. Carbon credits
 - f. Stability before transition
 - g. Slow transition over the long term
5. Support – financial and other:
 - a. Part of the plan

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b. Target support broadly

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