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CURRENT AND FUTURE PROSPECTS OF THE AUSTRALIAN FOREST INDUSTRY TA ANN TASMANIA PTY LTD AND NATIVE FOREST VALUE ADDING

ABSTRACT SUMMARY

Current and future prospects for the forest industry in regrowth native forests are positive when value adding initiatives are seriously implemented. This can be achieved by making use of properties inherent in regrowth timber that have a comparative advantage - such as higher density and sustainable management. A supportive investment environment has resource security as the key ingredient. Without the resource there will be no investment or growth.

This has been demonstrated by Ta Ann Tasmania (TAT) with the implementation of the Commonwealth and State Government's value adding objectives for native forests. TAT has built new mills to peel logs that were previously used for woodchips so as to make high value veneer for domestic and international markets. This involved investing $79M in southern and north-western Tasmania in 2007/8 and created over 160 direct jobs. In 2011, TAT will inject $44.8M into the Tasmanian economy.

Ta Ann Tasmania is also currently evaluating the construction of a ply mill in Tasmania - costing about $17M, providing up to 60 jobs, and making a $35M per annum contribution to the Tasmanian economy. Other opportunities also exist for TAT to grow the business including operation of an additional peeling and drying line at the Smithton RPV mill (requiring an additional 105,000m3 p.a.) and better use of manufacturing waste by-products for cogeneration of electricity and steam, and/or manufacture of Biochar or biomass. The Huon and Smithton RPV mills also provide private forest growers and farmers the opportunity for another income stream.

TAT investments have occurred because of resource security (under the State-Commonwealth RFA agreement, Tasmanian legislation and 20-year Wood Supply Agreements with Forestry Tasmania), an absence of sovereign risk, the availability of sustainable certified timber (AFS/PEFC), investment ready sites, established markets and Government support for the project.

Confidence for further investment by TAT is assisted or will be assisted by honouring of the Wood Supply Agreements, supply of regrowth billets and when available the incorporation of suitable timber from silviculturally managed 'designer' plantations that give high density, clear wood and a small knotty core. There is a positive Regional investment environment for downstream processing because of strong Government, Union and Community support for Regional development.

An Agreement by ENGO and Industry as a result of the current 'Principle' negotiations would help TAT's value adding initiatives as it would allow a common forest industry and conservation imprint to be adopted, as well as due processes to be followed (such as identifying and managing HCV forests) and an agreed pathway for each mill that is signed off by ENGO, community, Union and industry stakeholders.

Forest growers and timber processors could also secure an income from carbon sequestration/storage under sustainably managed forests and from the increment (timber) that is recognised for the carbon stored in timber products.

BACKGROUND TO TA ANN TASMANIA PTY LTD

Ta Ann Tasmania is a new value adding business that implements the Commonwealth and State Government's value adding objectives for native forests. TAT peels logs previously used for woodchips to make high value veneer for domestic and international markets. This has occurred as a result of investing $79M in regional areas in the south and northwest Tasmania and has created over 160 direct jobs. Further downstream processing is currently being considered by TAT.

A state wide overview of the Ta Ann Tasmania initiative is outlined below. More specific information on the southern Huon Rotary Peel Veneer (RPV) mill and northwest Smithton RPV mill is outlined in Annexure 1 for your consideration.

STATE WIDE OVERVIEW
TA ANN TASMANIA (TAT) CONTRIBUTION

TAT received the Australian and Tasmanian Emerging Exporter of the Year Award in 2008.

This followed new investments to value-add regrowth logs that would otherwise be used for woodchips by producing veneer for international and domestic markets.

The investments result from resource security provided by Regional Forest Agreement/State - Commonwealth agreements and by Tasmanian legislation that addressed sovereign risk, from sustainable forest management; and because of 20-year Wood Supply Agreements with Forestry Tas.

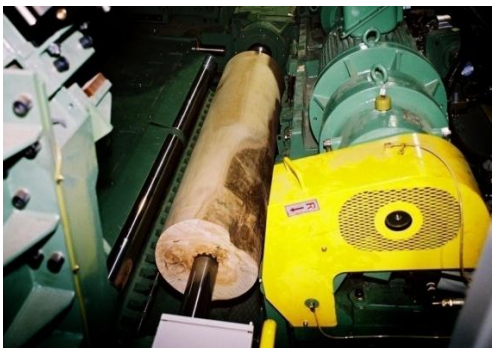
Eucalypt veneer is produced and sold domestically and internationally and is mainly used to make high value flooring, laminated veneer lumber and other plywood products. Shipments occur from Hobart & Burnie ports about every 3-4 weeks. The business requires veneer from both mills to give sufficient scale to be internationally competitive.

The new business results from a capital expenditure of $78.9M, including a $10.4M Commonwealth grant, to construct two rotary peel veneer mills. Huon mill was built in 2007 and Smithton in 2008.

The mills use world's best machinery and are capable of peeling & drying *Eucalypt* billets from regrowth & plantation forests. TAT has created about 160 new jobs and other indirect jobs. Some 29 positions are filled by overseas workers from the parent company - in construction, commissioning, training & operation of these new facilities. As the local workforce becomes fully able to meet the demands of production, the number of overseas visa holders will reduce.

In 2011, the business will inject $44.8M into the Tasmanian economy. Both mills are operating on 5-6 day*24hr basis.

Growing for the Future
TAT has adopted a "Growing for the Future" strategy. This includes further local value adding such as a ply mill at Smithton (costing about $17M and providing up to 60 jobs), an additional peeling/drying line at Smithton (requiring an extra 105K m3/yr of billets), and better use of 'waste' by-products to produce steam and energy or carbon capture products. There is an opportunity for suitable plantation timber to be part of the TAT's growth.



TAT requirements
The business requires regrowth *Eucalypt* from native forest to meet veneer timber property and quality requirements. As the business is productivity (size), billet quality and price sensitive, specific volumes and size/quality requirements for billets exist. The TAT business also requires:

- Supply as per the conditions of the existing Wood Supply Agreements to be honoured as well as the rollover intentions of the WSAs;
- Supply of regrowth billets and/or supply of plantation timber of suitable quality, size, location & price; and
- PEFC certification via the Australian Forestry Standard.

This provides confidence and supply security for further value adding such as a ply mill that targets the domestic market (import replacement) and international markets.

Plantation Eucalypt
The investment is based on the properties of regrowth billets but suitable plantation timber could also be used if and when it is available.

Plantation *Eucalypt* has been trialled by TAT at the Smithton RPV mill and indicates further tree breeding and targeted planting/silvicultural work is required to meet location, volume, quality, and production requirements – such as pruned logs to give green knots, avoid dead knots, provide a small knotty core, and yield particular grades of veneer. Plantations are yet to be proven as a viable substitute for regrowth from native forests for either mill.

Site specific silviculture (designer plantations) on public and private forests is required. For current operations and future growth, plantation billets need to have the right properties and be at the right location, at the right time, at the right quality, at the right volume, at the right

	size and at the right price for both the Smithton & Huon RPV mill to be viable.

KEY MATTERS

This submission makes comments on the following **Terms of Reference** based on Ta Ann Tasmania's experience and 'Growing for the Future' plans; specifically

- Opportunities for and constraints upon production;
- Opportunities for diversification, value adding and product innovation;
- Environmental impacts of forestry, including the development of win-win outcomes in balancing environmental costs with economic opportunities;
- Creating a better business environment for forest industries;
- Social and economic benefits of forestry production;
- Potential energy production from the forestry sector;
- Land use competition between the forestry and agriculture sectors and opportunities for farm forestry.

OBSERVATIONS AND COMMENTS FROM TAT EXPERIENCE

Some brief observations and comments on the current and future prospects for the forest industry are outlined below based on TAT experience and growth intentions.

Opportunities for and constraints upon production and opportunities for diversification, value adding and product innovation

Growth opportunities for TAT exist in regrowth native forests for further value adding, diversification, product innovation and growth. This is shown by TAT investing $79M in new technology, by using low quality regrowth logs to make high value veneer products, and by developing international markets for high quality floor ply.

TAT also recognises that opportunities exist for further downstream processing of the veneer by construction of a ply mill in Tasmania to use veneer from the Huon and Smithton RPV mills to make ply for Australian and international markets. Import replacement, market diversity, and greater job security for workers will result. Ta Ann Tasmania is currently evaluating construction of a ply mill in Tasmania and the work to date indicates it would cost about $17M, provide up to 60 jobs, and would see a $35M p.a. contribution to the Tasmanian economy.

Furthermore, other opportunities also exist to grow the TAT business including:

- An additional peeling and drying line at the Smithton RPV mill. The current building allows for this expansion. It requires an additional 105,000m3 per year of timber to be made available, a capital expenditure of about $14M, and would create 18 new jobs. This growth can come from suitable silviculturally managed plantations that are high pruned and give high density wood; and

- Cogeneration of electricity and steam using local mill/manufacturing by-products. Alternatively biomass/Biochar products could be made from surplus by-products. This allows 'waste' to be a valuable product; and
- Use of private property timber. The TAT mills provide sales options to private forest growers and farmers.

Growth opportunities for TAT are constrained by the supply of suitable timber. For TAT markets, the timber needs to have high density, high Modulus-of-Elasticity and meet certain specifications about quality. This is met from regrowth forests and could be met from suitable plantation timber. Further development work and funding for specific silvicultural and tree breeding work is required.

TAT has trialled plantation *E nitens* and *E globulus* at the Smithton RPV mill. High pruned plantation timber is required, and *E globulus* appears to have suitable properties while *E nitens* is wanting. For current operations and future growth of TAT, plantation billets need to have the right properties and be at the right location, at the right time, at the right quality, at the right volume, at the right size and at the right price for both the Smithton & Huon RPV mill. This requires site specific silviculture and plantation timber is yet to be proven as a viable substitute for regrowth from native forests or as an additional resource.

A transition to plantation is possible if the right wood (price, quality, size, volume, location) can be sourced. The best currently available information to TAT indicates that suitable plantations are not yet available as there few pruned stands at the right place and the available wood has a large knotty core or lower wood properties. Regrowth billets are needed because a transition to plantation resource needs to be flexible in the length of time and recognise it may take 30 years for suitable plantation timber to become available from 'designer' plantations even if areas close to the mill and of a sufficient scale are available.

Other constrains are indicated below.

Environmental impacts of forestry, including the development of win-win outcomes in balancing environmental costs with economic opportunities

Making veneer for domestic and international markets, rather than making woodchips, is a better environmental/economic/social balance.

TAT require regrowth billets, not old growth billets, because the TAT rotary peeling process requires billets to be small (20-70cm) and free of rot.

The environmental credentials of sustainably managed regrowth forests are better than large scale plantation forests.

Plywood products capture carbon. Forest growers and timber processors could not only secure an income from carbon sequestration/storage for sustainably managed forests but also from the increment (sustainable timber yield) that is recognised for the carbon stored in timber products.

Creating a better business environment for forest industries

Investment by TAT occurred because of resource security (under the State-Commonwealth RFA agreement, Tasmanian legislation, and 20-year Wood Supply Agreements with Forestry Tasmania), because a certified supply (AFS/PEFC) was available and because of stable governance.

Confidence to invest in value adding was also assisted by:
- Absence of sovereign risk;
- Investment ready sites. Southwood and Smithton were pre-approved for construction of RPV mills. This provided a predictable and short planning horizon for TAT;

- Roll over intentions of the Wood Supply Agreements (beyond 2027);
- Established markets. TAT has been exporting plywood to Japan for over 20 years;
- Forest management credentials. International certification under AFS/PEFC;
- Government support. This included a 10% shareholding by a Government Business enterprise (Forestry Tasmania) for a short period of time as a show of confidence; and
- Support for overseas expertise, such as 457 visa holders for construction, installation, training and operation of the new machinery.

As well as the above, confidence for further investment by TAT has been or will be assisted by:
- Continued supply of regrowth billets as suitable plantations are not yet available;
- Supply of suitable timber from 'designer' plantations to provide Wood Supply Agreement quality billets;
- Honouring of Wood Supply Agreements. TAT mill operations are volume, production and price sensitive. Therefore specific volumes, size and quality of billets are required as per the 20-year Wood Supply Agreement with Forestry Tasmania. Lower specification peelers are not viable;
- A positive Regional investment environment that includes Government, Union and Community support for Regional downstream processing; Strong support by State and Federal Governments for Regional Development initiative;
- Value adding of mill by-products; and
- Due process such as the adoption of a proper definition of HCV forests and management of the identified values.

The current Tasmanian negotiation for an Agreement by ENGO and Industry is supported by TAT. If realistic expectations are adopted by all Signatories, than a common forest industry and conservation imprint can be achieved; as well as a future pathway for each mill signed off by ENGOs and including promotion of forest products by ENGOs with the industry; and an alternate conflict resolution system rather than by protests.

Social and economic benefits of forestry production

Information about TAT's contribution is outlined above.

In summary, Ta Ann Tasmania is a new business that implements the Commonwealth and State Government's value adding objectives for native forests by peeling logs that are normally used for woodchips so as to make veneer for domestic and international markets. This has been achieved by the investment of $79M in regional areas (south and northwest Tasmania), creating over 160 direct jobs, and contributing $45M per annum to the Tasmanian economy.

It should be noted that the Smithton investment is in NW Tasmania occurred in an area that has been affected by closures of a paper mill at Burnie and reduction in employment at McCains (Smithton) and possible closure of the Gunns Sawmill (Smithton). Both Smithton and Huon have experienced high unemployment levels.

TAT mills are both state-wide and regionally important.

There is a willingness by TAT to invest in further downstream processing.

Potential energy production from the forestry sector

Mill by-products are used by TAT to generate steam for drying veneer.

TAT is also investigating alternative use of manufacturing by-products to provide steam for its drying process and energy for other industries. To be viable, Renewable Energy Certificates (RECs) are needed. Other alternatives being considered also include the capture of carbon as Biochar or as biomass to reduce the use of fossil fuels.

Land use competition between the forestry and agriculture sectors and opportunities for farm forestry

TAT does not see that there needs to be a conflict between forestry and agricultural land use under a landscape management approach. Opportunities exist for timber to be supplied from private land from sustainably managed native forest and plantations.

Lower site quality farmland for plantations can supplement State forest supply and can be used to produce 'clear' wood with higher density that is suitable for the TAT process. Improvement of these lower site quality lands may be possible through use of Biochar.

TAT has so far provided about 70 private forest growers/farmers with a source of income from forestry because of timber sales to either the Smithton or Huon RPV mills. As well as supply from Forestry Tasmania, about 35,000m3 p.a. can come from *Eucalypt* from private forestry with the current mill configurations. If a third peeling line at Smithton was used, another 105,000m3 p.a. would be required.

Certification of private forest management for sustainability is required.

CONCLUSION

Current and future prospects for the forest industry in regrowth native forests are positive when value adding initiatives are seriously implemented. This can be achieved by making use of properties inherent in regrowth timber that have a comparative advantage - such as higher density and sustainable management. A supportive investment environment has resource security as the key ingredient. Without the resource there will be no investment or growth.

This has been demonstrated by Ta Ann Tasmania (TAT) with the implementation of the Commonwealth and State Government's value adding objectives for native forests. TAT has built new mills to peel logs that were previously used for woodchips so as to make high value veneer for domestic and international markets. This involved investing $79M in southern and north-western Tasmania in 2007/8 and created over 160 direct jobs. In 2011, TAT will inject $44.8M into the Tasmanian economy.

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Forest growers and timber processors could also secure an income from carbon sequestration/storage under sustainably managed forests and from the increment (timber) that is recognised for the carbon stored in timber products.

David Ridley
Director
Ta Ann Tasmania
30/3/2011

Annexure 1

Huon Rotary Peel Veneer Mill

Description

- Built in 2007 for a cost of $39.72M and will inject $24.75M into the Tasmanian economy in 2011.
- Located in the forest near the regrowth resource at the Southwood industrial complex which also includes a regrowth sawmill, log merchandiser.
- Contains 2 peeling lines using world's best machinery; designed to manufacture 6' & 8' long grain (LG) veneer as well as 3' & 4' short grain (SG) veneer of high standards from low quality logs for the international market.
- Export of veneer leaf started in Nov 2007 using purpose built vessels. Operated at 70-100% during the GFC.

Employment

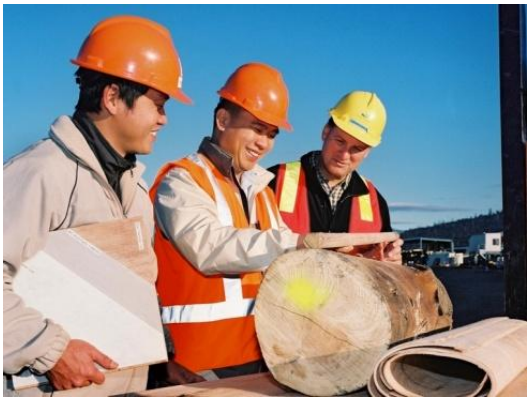
- Direct mill employment of 75 as well as 10 logistic & contractor workers.
- Directly supports up to 12 Log Cutting & Merchandiser Yard workers/contractors by FT.
- Also contributes to employment in related suppliers, log truck drivers, logging contractors, and state wide wharfage (30 part-time) and TAT management (8).

Sales requirement

- Export of 6', 8', 3' and 4' veneer leaf; of high density/high Modulus–Of-Elasticity and veneer quality for viable high value plywood production.
- The veneer leaf is produced mainly for international markets; and mainly floor board (FB) ply but also LVL and plywood markets.
- Sales by TAT also include domestic sales of high quality face and back veneer and long grain core veneer.

Resource requirement

- Resource security - supply from Forestry Tasmania under the existing 20-year Wood Supply Agreement and intended roll-over extensions of the agreement- of 150,000m3/yr of *E obliqua, E delegatensis, E regnans, & E globulus* (from FT's merchandiser i.e. not District specified under the WSA). Small end diameter of 20-70cm. The 150,000m3/yr is of specific grades and price with 105,000m3 long billets and 45,000m3 of short billets.
- Native forest regrowth billets, not old growth billets, as suitable plantation are not yet available.
- Eucalypt plantation – some has been trialled and use of suitable plantation billets is possible with further tree breeding and plantings / silvicultural works that allow location, volume, quality, price & production requirements to be met. Pruned billets are required by TAT.
- Certification – PEFC via mutual recognition under the Australian Forestry Standard.



Smithton Rotary Peel Veneer Mill

Description

- Built in 2008 at Smithton for a cost of $39.20M and injecting $20.05M into the Tasmanian economy in 2010.
- Contains two production lines using world's best machinery; capable of manufacturing 6' long grain (LG) veneer as well as 3' & 4' short grain (SG) veneer. Also includes space for a third line (growth strategy using regrowth or suitable plantation billets)
- Exports started in Nov 2008 using purpose built vessels. Operated at 70-100% during the GFC.

Employment

- Direct mill employment of 58 workers as well as 10 direct jobs in logistic & other contract work.
- Also contributes to employment in related suppliers, log truck drivers, logging contractors, and in state wide wharfage (30 part-time) & TAT management (8).

Sales requirement

- Export of 6', 3' and 4' leaf veneer; of high density/high MOE; and veneer quality for viable high value plywood production.
- The veneer leaf is used mainly for international markets; and mainly floor board (FB) ply but also LVL and plywood.

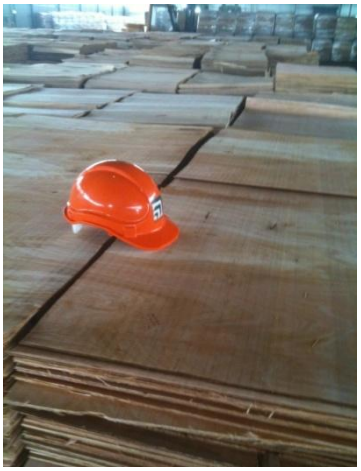
Resource requirement

- Supply from Forestry Tasmania – under 20-year Wood Supply Agreement delivering 115,000m3 of *Eucalypt* billets with a small end diameter of 20-70cm. The 115,000m3/yr is of specific grades and price with 80,500m3/yr long billets and 34,500m3/yr of short billets; purchased at TAT weighbridge.
- Supply from private property – up to 35,000m3 per year.
- An additional 105,000m3/yr when available at Smithton for a possible 3rd line.
- Native forest regrowth billets, not old growth billets, as suitable plantation billets are not yet available.
- Eucalypt plantation – some has been used. Possible with further tree breeding and plantings/silvicultural work to meet location, volume, quality, price & production requirements; pruned.
- Certification – PEFC.

Growth plans

Part of TAT "Growing for the Future" strategy:

- Prove the current business since it has only been operating for 2 years including the Global Financial Crisis; and then grow the business.
- 3rd line at Smithton – i.e. a 3rd lathe and 2nd dryer at Smithton. The existing building has been constructed for a third line to be installed. This requires an additional 105,000m3/yr of regrowth or pruned plantation logs. Capital cost of $14M providing 18 new jobs.
- Ply mill option, using current veneer and producing ply for domestic and overseas markets. Capital cost of $17M providing up to 60 new jobs.



Annexure 2
Terms of Reference

The House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry shall inquire into and report on the current and future prospects of the Australian forestry industry, particularly in regards to:

Opportunities for and constraints upon production;
Opportunities for diversification, value adding and product innovation;
Environmental impacts of forestry, including:

- impacts of plantations upon land and water availability for agriculture; and,
- the development of win-win outcomes in balancing environmental costs with economic opportunities;

Creating a better business environment for forest industries, including:

- investment models for saw log production;
- new business and investment models for plantation production; and,
- superannuation investment in plantations;

Social and economic benefits of forestry production;
Potential energy production from the forestry sector, including:

- biofuels;
- biomass;
- biochar;
- cogeneration; and,
- carbon sequestration;

Land use competition between the forestry and agriculture sectors:

- implications of competing land uses for the cost and availability of timber, food and fibre;
- harmonising competing interests; and,
- opportunities for farm forestry.

End