

**THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION
COMMITTEE A MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE,
HOBART, ON MONDAY 18 APRIL 2011.**

FORESTRY TASMANIA FINANCIAL PERFORMANCE INQUIRY

Mr BOB GORDON, MANAGING DIRECTOR, **Dr HANS DRIELSMA**, EXECUTIVE GENERAL MANAGER, AND **Ms SUE SHOOBRIDGE**, CHIEF FINANCIAL OFFICER, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Forrest) - I know you have appeared before committees a number of times and you are aware that information that you provide here is covered by parliamentary privilege but outside it is a different situation potentially. I assume that you are familiar with the information for witnesses. You would have been provided with that or read it at some stage probably in the past. This hearing is being recorded and it will be placed on our website, unless there is anything in particular that you feel should be given in camera, in which case you need to make a request to the committee and the committee will consider that request.

Thank you for coming. I commend you for leading the way with the GBEs in putting out some midyear financial results, although they did lack some detail that I know other people have commented on as well. I wonder if initially you are able to provide copies of the half-yearly income statement and balance sheet and cash flow statements or is what we got previously the sum total of what there is at this stage?

Mr GORDON - Do you want me to give you some background on why that is?

CHAIR - Yes, you can do.

Mr GORDON - Firstly, thanks for the opportunity to address the committee. I think it was 18 months ago, almost two years ago, that we appeared before the Legislative Council committee at the GBE hearings and at that meeting the request was made to give more detail on our financial statements. A bit later than that Treasury issued a guideline that said GBEs and SOCs should try to act in accordance with ASX guidelines - that is, act as if they were listed entities in terms of reporting finances. As you would be aware, a listed company would normally produce its six-monthly financial results and may or may not issue profit guidance at the same time. What we have attempted to do for what we believe is the first time by any GBE or SOC is to produce our six-monthly financial statements. We know that there is a lot more work to do on it but this was really in response to your request nearly two years ago, can we produce a set of six-monthly financial statements that provide meaningful information? One of the constraints is that normally a listed entity would have some sort of auditing of their financial statements and have a six-monthly update. There appears to be no head of power or authority to have those accounts audited by the Auditor-General so that is why that has not been done and also it is the first time we have done it and what we are trying to do is get some feedback from our stakeholders, including this committee, about whether they found those six-monthly statements useful and if they did, what improvements we might be able to make within the constraints we are operating under, which is that we think it is

going to be difficult, unless there is a change to the Audit Act, to have them audited by the Auditor-General.

CHAIR - Do you believe it really is important that they are audited? You can make qualifying statements and it is a snapshot in time. I think there are other businesses and companies that will not have them audited; they will provide an explanation as to the fact.

Mr GORDON - I do not think we think it is particularly important to have them audited but we thought we would raise that issue because that would be what normally a public listed company would do.

CHAIR - Not all.

Mr GORDON - So again, we also need to recognise that that would also be a reasonably costly exercise. I think our audit fees are \$80 000 or \$90 000 a year, something like that. An extra audit would have a similar amount of money to that and I also know that the audit department has obviously a list of priorities. I am not sure that this would be very high on their priorities.

CHAIR - Don't you provide, though, regularly to Treasury monthly statements basically?

Mr GORDON - Correct.

CHAIR - So what would prevent you from providing a similar sort of breakdown at a six-month period with a qualifying statement about them not being audited and subject to them being corrected at a later time?

Mr GORDON - I do not think anything would stop us producing information that is easily able to be obtained, so we would not want to do a whole lot of extra work just for that purpose, and obviously some things in the balance sheet are only ever adjusted at year end so there would be an issue there. What we have tried to do at this first attempt is a starting point: did people find them useful, do they think they can be improved, what are their suggestions about how we might be able to improve them?

CHAIR - Does anyone want to make a comment on the broad statements?

Mr HALL - What sort of procedures do other forestry entities in other States use?

Mr GORDON - Listed companies?

Mr HALL - No, I am talking about public authorities like Forestry Victoria. Do you know what they do?

Mr GORDON - No, the entities in other States would not do six-monthly statements. Quite a few of them are government departments so they do not have standard accounting practices, they do not have normal company accounting practices.

CHAIR - So you are a bit different in that regard because you are a GBE?

Mr GORDON - Correct.

CHAIR - So you have other obligations being a GBE as opposed to a government department?

Mr GORDON - But some of the other companies also would not produce those because they are not publicly listed, they are private companies. For instance, the Hancocks, Global Forest Partners, I do not think any of them would produce six-monthly or even the same sort of detailed accounts we produce on an annual basis. So one of the challenges for us is trying to get some reasonable benchmarking information to enable us to make comparisons about how we are going and that has proved fairly challenging because most forests in Australia are either owned by managed investment schemes or their successors or pension fund-type TIMO investors who have completely different reporting mechanisms than public listed companies. What used to be the government forest services in other States are now mostly split up in a way that it is difficult to get much financial information that is directly compatible with what are the costs of managing the forests, what are the revenue streams.

CHAIR - We might come back to that point later on.

Mr WILKINSON - With the discussion that you would have had with the Auditor-General, has he requested that you do certain things which you do not believe are appropriate and, if not, why not?

Mr GORDON - The three things that Auditor-General raised in his last report to Parliament - do you have that?

CHAIR - Yes.

Mr GORDON - You would recognise that last financial year, for the first time we had independent expert valuers to do an independent valuation of the asset values of the forests and that was partly at the request of the Auditor-General. We are doing that again this year and we think there are probably some refinements on that. Again, we picked that up because many of the public companies or TIMOs that manage or own forests in Australia use the same independent US-based company because they have some world expertise in this forest valuation exercise.

We have also picked up the recommendation you made about quantification and disclosure of community service obligations, which appeared in last year's annual accounts as a first estimate. We have submitted a formal application to have those CSOs dealt with in accordance with the GBE act. Again, the methodology and future valuation frequency will have a revaluation this year. It is a reasonably expensive exercise and it may not be necessary to do it every year. We might just be able to do an adjustment and might do it every second year because it is a reasonably costly exercise.

He also made some comments about operating segments - that is, breaking down our accounts. I think one of the suggestions he made was to split into domestic and export.

Dr DRIELSMA - No; he talked to us about that.

Mr GORDON - Yes. We are intending to break down our tourism results separately and we are going through an exercise to look at how we do that. Potentially, our new wood subsidiaries operate Southwood Huon and Southwood Smithton and the rest would be the major operating part of our business. So we are still working through that process with the Auditor-General.

Mr WILKINSON - Are they the only areas that he believed would be a better way of reporting?

Mr GORDON - I think that is right. Have I missed anything?

Dr DRIELSMA - I do not think he makes specific recommendations about the segments. He just said that we should look at segment reporting, which we are doing and he has discussed further with us.

CHAIR - He does make some points about the reconciliation of your profits and operating cash flow. I would like to talk about the cash flow. The Auditor-General commented in his last three reports about FT's negative operating cash flow. At this stage, the operating cash flow interested me more than the profit figure because, I am sure you will agree, it is possible to survive making losses if the cash flow is okay but surviving continual cash flow deficits is much harder, obviously. Last year in 2010 the operating profit before CSO adjustments was an \$8 million loss, but the operating cash flow was a \$12 million deficit, and for the latest half year the operating profit before CSO adjustments was \$2.2 million. So what was the operating cash flow surplus or deficit in the half-yearly report? Do you have a figure?

Mr GORDON - Sue probably has a rough figure but, again, some of the timing of our operations is quite seasonal, particularly the roading, which generally occurs between November and about now, is quite a seasonal lump of money. Regeneration burning is also quite a seasonal lump of money. It all occurs in March/April. Our regeneration program, which is a very large capital commitment, generally occurs about now. We would be seeding forests now and it is very large number. I am not sure how useful a snapshot necessarily is because it will probably reflect seasonal factors. Our income is a reasonably constant cash flow, whereas our outgoings reflect the seasonal nature of our works.

Dr DRIELSMA - Also it is also worth making the point that the cash flow of course takes into account capital expenditures, so in a period where we have received significant funding and are investing that in plantations and drawing that capital amount down, and in a year when profits were low, it is to be expected that we have a negative cash flow because we are drawing down that capital amount.

CHAIR - The Auditor-General's report suggested FT provides a reconciliation between operating cash flow and operating profits. He also noted that in 2010 the reconciliation between comprehensive income and operating cash, and in note 13 stated it was far too complicated. He did provide us with a bit of back-of-envelope reconciliation after we met with him last week. So can you provide a reconciliation between operating cash flow and operating profits and are you able to provide the reconciliation for the last year - 2010?

Mr GORDON - For the year ending 2010, I think we would probably agree with him that it was quite a complicated process but I think it met accounting standards.

Ms SHOBRIDGE - It did.

CHAIR - I know the accounting standards. We discussed this with the Auditor-General as well.

Mr GORDON - Unfortunately sometimes the accounting standards make it difficult to present your accounts in a way that is reasonably simple and comprehensible. Unfortunately it is a bit like statements on the unfunded super liability. It think it is about three pages in our accounts and it is quite complicated.

CHAIR - The Auditor-General noted that the trade receivable increased by \$7 million last year, out to 85 days, and this was a particular criticism from the A-G. What is the current situation in terms of dollars and days outstanding and are you able to provide a breakdown of the major customers? We know that you have Gunns, Ta Ann and Norske Skog, but can you provide some more detail around where you are sitting at the moment with that?

Mr GORDON - I think it would be difficult for us to provide in a public setting the current debt we might have with each customer because obviously most of them are publicly listed and that would be an issue for them. But to put it in context, what has happened is that it has been an extraordinarily difficult time in the forest sector. Some of those debtors would be now held by receivers or administrators. Some of our customers actually went into administration.

CHAIR - Is that accounting for part of this push out to 85 days?

Mr GORDON - Yes, one of those I think at the time would have been the administrators/receivers of FEA, who have since paid that debt to the softwood joint venture.

CHAIR - So it is all paid?

Mr GORDON - Yes. That was I think \$2.9 million or \$3 million that would have been in our books through the softwood joint venture. We have also has some very difficult trading conditions for some of our customers but one of our priorities is to try and reduce that outstanding debt level. We have made some reasonable progress on that in the last two or three months but this is probably one of the most difficult times most people in the forest sector have experienced for a long, long time.

CHAIR - Then for FT to remain profitable and be able to pay your own debts and to be able to meet your operating costs, you have got to have cash flow.

Mr GORDON - Correct.

CHAIR - So where are we at with the 85 days? Have we still a lot of money that is out that far or what are we talking about?

Mr GORDON - Do you know what the number was at the end of the six months?

Ms SHOBRIDGE - It was 91 days, so it has worsened.

CHAIR - How much are we talking about. I am not asking for a breakdown of each customer, but overall.

Ms SHOBRIDGE - Around \$40 million.

Mr GORDON - That includes current.

CHAIR - How much of that of portion would be current and how much is well pushed out.

Ms SHOBRIDGE - Only about 25-30 per cent is current on a month-by-month basis.

CHAIR - That would be imposing significant pressures on your cash flow.

Ms SHOBRIDGE - Yes.

Mr GORDON - It is.

CHAIR - How are you looking at managing that?

Mr GORDON - We have had meetings with each of our major customers and some of them have entered into agreements about agreed debt reduction programs. With others we are in the informal processes of dispute resolution because some of the debts are in dispute, which is again what tends to happen in difficult market circumstances, and we intend to pursue those processes to their contractual ends so they normally have provisions for arbitration, dispute resolution in all our contracts.

Mr HALL - So there is a way of mitigating some of those issues and I understand that you have some debt reduction programs in place. Do you then go and charge, say, a commercial rate of interest to try to sort that out?

Mr GORDON - Yes, we charge interest on all outstanding debts which is collected as part of the debt. But as the Chair said, it is always better to have the money.

CHAIR - It does not help your cash flow while you are still waiting for the interest as well as the principal.

Mr GORDON - Correct.

CHAIR - I notice that another difference between the operating profits and the operating cash flow in 2010 was the \$6 million paid to RBF and this was not included as an operating expense. Can you tell me why there is no expense for the cost of superannuation for your defined benefit members, included the operating cost calculation? The Auditor-General has confirmed that FT's treatment of defined benefits superannuation differs from other GBEs and SOCs, such as Hydro, Aurora and Transend. They break up the cost of defined benefits superannuation between operating

and non-operating expenses. I am interested in why Forestry Tasmania adopts a different treatment. Has the board discussed reasons for this unique approach?

Mr GORDON - I was not aware we had a different approach to other GBEs and SOCs. We have had a series of very long discussions about the unfunded defined benefit liability which appears in our books as a number that in my view does not reflect the real number of the liability but unfortunately the accounting standard which was applied, and again I think last year was also applied incorrectly as a not for profit, does not reflect the market value of that liability. So if you went out to the market and said we are taking bids for people to buy the unfunded liability, you would get a completely different number from the number that appears in the actuary's report. The way the actuary debt last used a wage increase rate that was more than twice the wage increase rate that actually happened in Forestry Tasmania also effectively assumed that you had no return on any superannuation investment so it just paid the bond rate and we have raised that issue several times with Treasury and it is still unresolved. What that effectively does is inflate the liability in our balance sheet for unfunded superannuation above what it really is. That is, it is not a market based or -

CHAIR - Are you saying to me then, Bob, that you believe unfunded liability is not as big as it appears on paper -

Mr GORDON - Correct.

CHAIR - and that you have therefore a greater capacity to pay it?

Mr GORDON - We pay it as it emerges.

CHAIR - But some of it will emerge every year if you have people retiring.

Mr GORDON - Correct, and what has happened in the last three-and-a-half to four years is that we will have gone from 530 people in January 2007 and we will have 350 or fewer at 30 June 2011. So there is a one-off hit you get and, again, the way the scheme works is if someone retires and takes a lump sum, we are required to fund that in cash within 14 days of getting the notice from RBF.

CHAIR - That is the defined benefits members?

Mr GORDON - Correct. The other one is the fully funded, the accumulation members -

CHAIR - Contribution?

Mr GORDON - Yes. So we fund the contribution as the liability occurs; with the defined benefits we are prohibited from funding the liability when it occurs, although there was some discussion with government about changing the legislation so all GBEs and SOCs could make contributions to RBF as employer contributions which would be required by any other employer in the country and I understand the Government is working on that.

The reason I am raising that timing issue is that not all of those people who have retired have come off the liability because the actuary does the accounts well before the end of the financial year. Also there are some one-off hits in there because going from 530 to

350 will permanently reduce the liability but in the short term there is a cash hit, and that's effectively what's happened.

CHAIR - Is that likely to increase in the last six months of this financial year because of your decisions around the Mersey district?

Mr GORDON - Correct, it will, but it also theoretically lowers the overall unfunded liability because we've crystallised the liability at a point in time generally well before the actuary would have assumed it would be crystallised.

CHAIR - When does the actuary look at it this year?

Mr GORDON - I haven't had anything from the actuary.

Ms SHOOBRIDGE - It is being looked at at the moment. I had to ask them to take into consideration our known changes before 30 June.

CHAIR - So when we see your next annual report and accounts we should see a fairly accurate figure because the actuary will take that into account?

Ms SHOOBRIDGE - We hope that will be the case.

Mr GORDON - We don't engage the actuary; it is engaged by someone else and we don't get much say in it. If they did it at 30 June - although I expect that not all of the liability will have been crystallised by 30 June because some people will take leave before they formally retire - it's a reasonably large number.

Dr DRIELSMA - But there's no reason to expect it would be any more or less accurate than it's been in previous years. It'll be what it is.

Mr GORDON - The standard, in my view, does not give a true reflection of the liability.

Mr HALL - Through you, Madam Chair, to Bob - you say you're going from 550 down to 350, and obviously part of that is the disappearance of the Mersey district -

Mr GORDON - Yes, that's a part of it but there are a whole lot of other things as well.

Mr HALL - and then Murchison and Bass taking part of that. In terms of FTEs, where are most of those people going from to get that reduction to 350? What proportion are out in the field and what are in head office?

Mr GORDON - It would be a reasonably even spread of reductions over the last three-and-a-half years. You are probably aware that we have significantly downscaled our head office building, so we have tenants in the building. Part of the negotiation we had as part of our cost-saving measures was to significantly decrease the rental payments we make at all the privately held buildings where we have a landlord. Unfortunately, the ones that are owned by Treasury have imposed significant increases without consultation, which is one of the reasons we're leaving those buildings.

CHAIR - They've got a black hole to fix too, you know.

Mr GORDON - Then they should look at market-based prices. We have had probably 1 000 square metres of office space released in our office building, some of which we have leased out to other tenants. We've also sold our office and depot location in Triabunna and I think it's now going to become the community health clinic.

CHAIR - Did you get a fair price for that?

Mr GORDON - I think so. There's a difficult market for regional buildings and land in Tasmania. You have to have a willing buyer or there is a very thin market. We have normally not rushed these things; we've let it be known that we're happy to dispose of it and then try to find a willing buyer that we believe would pay fair market value.

Mr HALL - Bob, you said the reduction in employees would spread across the board. How many people, for example, are we losing out of the field who are qualified forest practice officers and that sort of thing? Do you have a breakdown that you could give us?

Mr GORDON - Not off the top of my head. What we've done - and I think we've done it reasonably successfully - is look at a number of ways of reducing staff numbers without causing significant industrial concerns and we have tried to do it in a way that is as easy as possible on the people. When the global financial crisis hit two-and-a-half years ago, we had a series of meetings with all our staff. Quite a few people volunteered to go part-time while things were difficult. Some of those have found that they like working part-time. The benefit to us is that we retain their expertise. In the field, the same thing has happened, but you also have to recognise that you have an overlay on the age distribution of our workforce. So we have a significant number of people who are over the age of 55 who could, theoretically, retire and some of those would have retired some time in the next five to seven years anyway.

What we have tried to do is make sure that we can, as far as possible, make the reductions that we have had to do in order to get our operating costs down as easy as possible on the people concerned and that has been a fair challenge.

Mr HALL - I appreciate your response. Is there any chance that you could provide for the committee your strategic plan or the numbers that you are moving on? After June this year, when you get down to 350, is there any further reduction coming forward?

Mr GORDON - Again, I think there is likely to be some minor reduction, depending on, again, the current age distribution of the workforce. One of the things we have to manage pretty carefully is that we are the major forest fire-fighting organisation in Tasmania. We have nearly 250 trained, fit fire-fighters, which is probably about 90 per cent of the fit fire-fighters trained to fight forest fires, rather than grass or urban fires. So I have had to be careful to try to maintain that fire-fighting capacity and every year people need to do a fire-fighting fitness test. That is one of the reasons that the age distribution has been a bit of a challenge for us, not that I am saying necessarily that people over the age of 55 cannot meet the fire-fighting fitness test, but there is a lower probability. I was not looking at you, Mr Wilkinson.

Laughter.

CHAIR - Thinking of yourself, were you?

Mr GORDON - I was. We have been trying to manage that at the same time and that is a fair constraint. We have not, during the last three years, cut our recruitment of trainees. So every year we have recruited trainees, regardless of the financial circumstances. One of the reasons we have a very uneven age distribution in our workforce is that 20 years ago trainee recruitment was cut and so you do not get that flow of people through the system. In the last three we have taken on five or six or maybe a few more trainees. Obviously all of them easily meet the fitness requirements but they do not necessarily have the skill set. So, again, we have an active program as part of their training for them to pick up the practical and theoretical skills about fire fighting.

Mr HALL - Going back to the question, you can provide a snapshot?

Mr GORDON - We can provide probably what we were at the end of each financial year, which is probably the only time we can easily do a snapshot.

CHAIR - Forward projections too?

Mr HALL - Yes, if possible?

Mr GORDON - For after 30 June this year?

Mr HALL - Yes.

Mr GORDON - That will depend a lot on what happens in terms of any outcomes of the round table discussion.

Mr HALL - It might be a bit of a crystal-ball gazing there, so I would be happy for just up until June.

Mr WILKINSON - Obviously a reduction of 530 down to 350 is a significant reduction. What areas are those people mainly going to come from?

Mr GORDON - It has already happened.

Mr WILKINSON - What areas were they?

Mr GORDON - Across the board.

Mr WILKINSON - Did any one area take the heat more than others?

Mr GORDON - Other than the rationalisation of Mersey into Bass and Smithton, that has been the only one where we have had to do substantial one-off redundancies. The others have been managed by negotiating with people working through issues. As I said, we have had an age distribution where that was a bit easier to do, with a lot of people over the age of 55.

Mr WILKINSON - So the obvious question is have the services suffered as a result of that and if so in what areas?

Mr GORDON - Technology has changed the way you manage forests quite a bit. I was district forester at Fingal in the early 1990s, which is not all that long ago, and we did not have e-mail, the worldwide web, no easy access to GPS and geographic information systems to go and plan a coupe. We had to go in with the slash hook and cut boundaries through the wet. Nowadays we can do it from laser sensors mounted in an aeroplane. A whole lot of things have changed and I think we have been at the forefront of a whole lot of that technological development which has made things much more efficient. I think our road building is much more efficient. I think our plantation establishment is more efficient. We have had geographic information systems since about 1983 and the people who used to work in our mapping area used aerial photographs and drew stuff manually and then eventually digitised it. A lot of that has been overtaken by LIDAR, which is laser mounted, so there has been a reasonably substantial reduction in our mapping staff. That flows through into the field because what used to be really difficult coupes to plan have become much easier because of the information you have available digitally. So we have been able to substantially reduce staff numbers by doing things much smarter using new technology than we have ever done before.

Mr WILKINSON - So would it be fair to say from your answer that services and the work output has not suffered in any degree as a result of the reduction in staff?

Mr GORDON - No, I would not say that. We were funded for community service obligations up until 1997-98. For example, the recent heavy rains on the east coast and the mid-north coast washed out bridges and walking tracks and we do not have the money to replace those. If you go back 10 or 15 years, we used to cross-subsidise from forest sales a whole lot of that sort of stuff. When the community service obligations were cut, we have been reducing the amount of money available to spend on that sort of discretionary expenditure.

Mr HALL - With the dissolution of the Mersey district does that enable you to capitalise on any assets sales there at all?

Mr GORDON - The building we are currently in, Stoney Rise, is not owned by us; the government is the landlord. It is our most expensive building and we will be looking at moving out of that. We have a depot at Latrobe on the highway and we are looking at a couple of options about getting out of that expensive building into cheaper ones.

Mr HALL - How much will that save you?

Mr GORDON - I think the rent is about \$250 000 a year and moving to our own site or a much cheaper site could easily save half of that. We have also rationalised vehicles; obviously with fewer people we need fewer vehicles than we used to have.

CHAIR - Are you leasing some of them back? You sold them to lease them back?

Mr GORDON - Yes, but we have also reduced the number of vehicles as well.

CHAIR - The benefit of leased-back vehicles is that obviously you get the money upfront, but is that a long-term strategy for reducing your costs and on what do you base that?

Mr GORDON - Yes. We did a cost-benefit analysis on the vehicle sale and lease-back and it was slightly positive. That was partly because the funding rates and the deals that large fleet managers can get and some of the efficiencies they get in such things as purchase of consumables are quite substantial but, at the same time, we were also trying to reduce the total number of vehicles that we had, which we could do because we had a shrinking work force, and also reduce the age of the vehicle fleet. My vehicle has 170 000 kilometres on it. We don't roll them over like the government vehicles at every 45 000 kms. It must make sense to some but it doesn't make sense to us. We also have a lot of specific-purpose vehicles. For example, in the firefighting season all our field units will have a slip-on water tanker so they can be firefighting units, so the vehicles we purchase have to be suitable for that. They were getting quite old and by having the lease-back arrangement we will, over about a three- to five-year period, reduce the average age of our vehicle fleet quite substantially.

CHAIR - Bob, I'm interested in what you think would be a minimal operating cash surplus you would need to meet your obligations. You've talked a bit about asset sales, selling buildings and reducing your lease payments for buildings and reducing the number of people and vehicles. You still have to establish plantations and build roads, you also have to pay RBF for pensions that are on foot now and lump-sum payments - and that's currently about \$6 million, and I think it's likely to rise with more retirements -

Mr GORDON - It depends on the mix of lump sum and pension.

CHAIR - What do you think you'd need as an operating surplus to meet your requirements for the roading, plantations and other operating expenditure?

Mr GORDON - Again, as Dr Drielsma said, part of the plantation is really a one-off in that when the RFA and TCFA took large areas of production forest out of production we were compensated for loss of that asset off our balance sheet but at the same time committed to effectively a one-off plantation establishment. That is a one-off, so we wouldn't expect -

CHAIR - Those costs are all capitalised, though, aren't they?

Mr GORDON - It's still cash. We have the cash from the TCFA and RFA and it goes out as cash every time we spend \$3 000 or \$4 000 on a plantation establishment. That plantation lump of it is really a fairly short period of cash out for which we already have the cash in. We have done a lot of work on reducing our road costs - and the technology I referred to is one of the ways we've done that, by better road location and cheaper roads. I think there's still a fair way to go on that. We have outsourced some of our services. For example, a lot of our surveying and some of our road location work has been outsourced, which takes it from a fixed cost to a variable cost, which reflects much better the ins and outs. Our roading program can vary quite a bit, depending on the level of demand. In a really strong market our roading goes up because we have to put the roads in to get the wood out. In the current circumstances where the market is probably the worst its ever been, or the market for the companies we are dealing with is the worst its every been, one of things we do is substantially reduce our capital spend on roads, which again is all cash out. It depends a bit on the timing.

CHAIR - Is it fair to say, Bob, that a lot of the TCFA funding - and the Auditor-General alluded to this in his report over the last couple of years - has been used to meet operating expenditure? I accept it is a cash flow issue, that you can meet your needs and obligations in a variety of ways and it's one bucket of money wherever you use it, but with these outstanding debtors that we talked about earlier and the current challenges, I hear you are taking a number of steps to reduce your expenses, but is it a fair comment that you have used the TCFA funding for operating expenditure and you are going to need a surplus to acquit the projects -

Mr GORDON - If you look at the end of the last financial year accounts, the Auditor-General's report said there was only \$15 million of TCFA funds that had not yet been acquitted. I think if you look at our cash balance at the end of last year it was \$30 million.

Dr DRIELSMA - I think that is the point, isn't it? I do not think it is a fair characterisation. If you look at our current assets at the end of last year's accounts they more than accounted for any TCFA requirements that would still emerge. Given that those things emerge over time, just like our super, there is really no difference. So, yes, we manage our cash flow but in terms of last year's accounts our current assets were much more than our current liabilities, which included the forward liabilities in terms of what we would have to expend.

CHAIR - I am not sure whether other people are confused about how the TCFA functions. It is a bit difficult to understand how the funds are treated. I understand that all funds have been received. Is that right?

Mr GORDON - Correct.

CHAIR - And some is unspent. It appears that some is yet to be returned as revenue in the income statement so it remains as revenue in advance on the balance sheet.

Mr GORDON - Correct.

CHAIR - The amount unspent is a lesser amount than the amount yet to be recorded as revenue or earned.

Dr DRIELSMA - We acquit the money. We receive the money. It was a compensation payment essentially.

CHAIR - Yes, I appreciate that.

Dr DRIELSMA - We have got reserves, we got a compensation amount and we put that in our accounts. It is not a grant. We do not keep it separate. There is no requirement to return it, but there is a requirement to acquit how we have dealt with that money and so all but \$15 million - well, it is a little bit higher - we have acquitted.

CHAIR - Which would demonstrate how you have spent it.

Dr DRIELSMA - We have demonstrated that we have spent it and we acquit it. When we establish a hectare of plantation we acquit against that funding all the cost associated with the establishment of that plantation.

CHAIR - Including your labour costs?

Dr DRIELSMA - Yes. It is sort of done on an agreed basis. So there is \$6 000 a hectare. As part of the arrangement, the understanding was that for every hectare of plantation we established there would be \$6 000 acquitted. In essence, we have put that into our bank account and then we look after that plantation for the rest of its life. Part of that \$6 000 stays as revenue in advance because we only draw it down and expend it as we do the pruning and the fertilising over time and some of that will emerge over a 15- or 20-year period as we incur the subsequent costs. As far as the external acquittal to the Government is concerned, we have acquitted that once we have established that hectare of plantation.

CHAIR - Even though it has not all been spent?.

Dr DRIELSMA - Even though it all has not been spent. That is right.

CHAIR - Can you provide for each year a simple statement of the TCFA funds received, the amount spent, the unspent cash and amounts returned as revenue and the balance of revenue in advance as they will reconcile with the amount of your balance sheet? Can you provide that?

Mr GORDON - I think it is already in the accounts, but it is probably a bit hard to get out.

CHAIR - It is a bit hard. Are you able to provide a simplified version perhaps that actually shows -

Mr GORDON - I know we did some stuff with the Auditor-General on that because he had a similar question.

CHAIR - I think it was in 2007-08 that he provided more of a breakdown. He did it himself but, again, there were gaps.

Mr GORDON - I think that was probably the RFA stuff wouldn't it have been then? I am not sure. We can certainly try and make it a bit simpler.

CHAIR - So you will provide that detail to us?

Mr GORDON - Yes. When you asked about cash the other challenge is that the compensation we were paid when substantial areas of forest were taken out of production has mostly been used for plantation establishment and for thinning. The problem with that is it is a bit like the Government saying they are going to build a highway and compulsorily acquire your house and they pay you compensation, but then it is going to take you 20 years to build the new house. That is what has happened with us. What effectively happened we got cash flow taken off us, so the forest that was taken out of production would have been producing cash every year. We got a lump sum compensation payment but we are investing that in plantations where the cash does not

come for 25 years. So it has been a real challenge because there is a mismatch between the form of the compensation and the cash flow loss that we suffered. So if the forests had not have gone out of production, we would have produced cash from them every year. Instead of that, that was put into a lump sum. We paid that and over the last six years we have been outlaying that cash but we will not get the revenue until we sell the trees. So it is a real mismatch in our cash.

CHAIR - The Auditor-General said that you have discretion as to how the unspent funds are spent, so what discretion is that? Is that to the timing of it? Your report refers to expenditure commitments of \$42.6 million but the Auditor-General in 2010 said that only \$15 million was yet to be acquitted. Can you explain anomaly there?

Mr GORDON - Again, the commitments are based on output. We committed to establish a certain number of hectares of plantations.

Dr DRIELSMA - In essence, if you go to the back of the agreement, the TCFA, there is a schedule of projects, if you like. One was the alternative to clear-fall burn and so there was an IFM program and there were some things around special timbers. We received money that was related to those programs. Essentially it was up to us, I guess, to determine the nature of the programs that were to be pursued within those tranches and we acquit back to the Government in relation to those activities.

In relation to IFM, the agreement specifically refers to establishing new plantations, improving productivity of existing plantations and thinning of native forest. We undertake activities within those three programs, under the IFM program, to create future productivity. Most of it is in plantations but some of it has been improvement of existing plantations and some of it has been thinning of native forests to enhance wood production in the native forests over time.

CHAIR - So the difference between the \$42.6 million?

Dr DRIELSMA - The \$42.6 million is the revenue in advance. It is made up of the \$15 million that the Auditor-General refers to as unacquitted, which is money that will be expended in the future in plantation establishment or productivity enhancement or thinning. The remainder relates to the future works that will be mainly fertilising and pruning of those plantations as they mature over time. So it has been acquitted because we have established the hectare but we have kept it as revenue in advance so that we can match the actual future emerging expenditure in maintaining those plantations with those funds.

CHAIR - I am sure you are aware of this, there was some apparent adjustment between what was stated in your annual report last year, obviously signed off by the Auditor-General, and then what appeared on your website a bit later with regard to this. I cannot find the detail of it.

Dr DRIELSMA - Do you know the detail of that, Sue?

Ms SHOBRIDGE - I know the detail. The first time the report was issued, subsequent to that, the Auditor-General himself identified what he considered an error that he asked us

to correct because we treated a particular cash flow as net rather than gross. So he wanted us to -

Dr DRIELSMA - He asked us to restate that, which we did.

CHAIR - Is that what led to the change on the website?

Dr DRIELSMA - That is what led to the change.

Ms SHOBRIDGE - Yes. So it was at the A-G's request.

Mr GORDON - So it is providing in and outs as well?

Dr DRIELSMA - Yes.

Ms SHOBRIDGE - So it did not change the actual operating cash flow result, it just reclassified it between property, plant and equipment.

CHAIR - When did that become apparent to the Auditor-General?

Ms SHOBRIDGE - Between when he first authorised us to issue the accounts and I think it was in about three days that he asked us then the restate it.

CHAIR - After your annual report was published?

Ms SHOBRIDGE - Yes.

Mr GORDON - After it was published or after he signed off on it?

Ms SHOBRIDGE - After he had signed off on it.

CHAIR - So the figures that were published in your annual report -

Ms SHOBRIDGE - The first version that went onto the web site was subsequently amended.

CHAIR - At the request of the Auditor-General after he reviewed it?

Mr GORDON - Correct.

CHAIR - Thank you.

Mr GORDON - It did not make a change to the totals, it only split up the report.

Mr HALL - I want to ask another question on the half-year financial report where you talk about tourism revenue. We have around about \$900 000 there but it does not break down what the operating expenses are to conduct those, I presume the AirWalk and any of your other tourism. Can you provide any operating expenses for those particular tourism operations and whether in fact they are making any money or they are not making money?

Mr GORDON - That is one of the things that we are looking at at the moment - whether we can provide tourism as a separate reporting segment. We are in a bit of a state of flux or we were at the end of the six months' reporting period in that it was about when we leased out Tarkine Forest Adventures to the new operator and there are some one-off expenses to get rid of some dead overhanging trees and a few other things that would throw the reporting for that part of it out a bit. At the moment the AirWalk is making a reasonable return on investment. It is producing money. Hollybank Treetop Canopy Tours has gone from last year just about breaking even to now producing reasonable cash results, despite a really difficult tourism season because it is a different part of the market. It is an adventure-based tourism that is at a reasonably high price point. Maydena is not making money and again we are looking at some options about whether the model that we developed for Tarkine Forest Adventures will get an owner/operator effectively to run it and we are just an enthusiastic landlord.

As I said, we are looking at how we can segment our tourism part of the business and produce some meaningful reporting on that. I think the Auditor-General again made some comments about that in last year's report and we working with him to see what we can produce for this year.

Mr HALL - Is it fair to say that you may, hypothetically, divest all of those tourism ventures, including the AirWalk, if there was a commercial operator that you could divest those to?

Mr GORDON - We are a commercial operator. If we thought we could get a better rate of return by looking at someone else being the operator, we would obviously look at it.

Mr HALL - Obviously the assets that you own are quite significant. Do you think there is anybody in the market who would purchase those outright and then run a business?

Mr GORDON - It would be difficult for most of them. They are in forest reserves so you cannot sell them. So it is a matter of having an operating agreement which is what we have effectively at Tarkine Forest Adventures where we are the landlord and the tenant runs the business, including all outgoings, and pays us a lease fee based on a proportion of turnover, and the same happens at Hollybank. We have looked at various models for the AirWalk. The challenge is that the AirWalk is a reasonable distance from any other infrastructure or support. We have people going out to Warra, our operating forests all the time, so we would have to find someone who could cope with what effectively would be a higher cost structure out there than the cost structure we currently enjoy because it is part of our business, but I would not rule it out if we could get the right deal.

CHAIR - The same applies to Dismal Swamp.

Mr GORDON - It is not as far out. It is about 25 minutes.

CHAIR - It'd be a good 25 minutes from Smithton, wouldn't it, on that road? I reckon you're speeding if you're going that fast.

Mr GORDON - It didn't take me 25 minutes last time.

Dr DRIELSMA - The point is, as Bob said, that you would consider that if the proposal you had looked as though it would generate a greater return than what you were looking at. Clearly in the Tarkine that is the sort of case we had and that's the decision we made. It rests on its merits.

Mr GORDON - One of the reasons it suited that particular case was that tourist numbers there have been dropping off and they are intermittent. A large company has to employ people all the time in case people arrive. If it's run by a family unit, which it currently is, they have a lot more flexibility about how they match their expenditure to their revenue. At the AirWalk we still get 80 000 to 90 000 people year and it's one of the top tourism destinations in Tasmania. We have brought in some management changes there. We've recruited someone who ran some reasonably large accommodation and tourism ventures in the north-east of the State and he's now running Tahune and we expect some efficiencies to come out of that.

Mr HALL - Could you table a snapshot of the operating expenses and revenue from the past couple of years for the tourism ventures?

Mr GORDON - I think it would be difficult to go back. We're still developing how best to report on it. We haven't always reported consistently in the last three years on our tourism ventures. What we're hoping to do is get a form of segment accounting for our tourism that is reasonably robust and we can then make comparisons going forward. It would be difficult, I think, to go back. Again, there will be some one-off changes. For example, the Hollybank tourism venture is a separate company, of which we are a 50 per cent shareholder. We have to work out how we can make a meaningful comparison going forward.

Mr HALL - With due respect, Bob, I would have thought you would have had the operating expenses for each of those entities.

Mr GORDON - We have the operating expenses but we didn't necessarily spread some of the corporate overheads consistently. There are some corporate marketing and overhead costs for which you need an algorithm to spread amongst the ventures and we haven't necessarily done that consistently over the last couple of years. I think we have probably got it about right now, but you would get a different result depending on how much of that corporate overhead you allocate.

CHAIR - You can account for that and look at the other expenses and -

Mr GORDON - The operating expenses are relatively easy.

CHAIR - You can provide that?

Mr GORDON - Yes, we will have a look at that.

Dr GOODWIN - Bob, you mentioned that the Maydena facility isn't making money and that you're hopeful you'll be able to find an operator for that. Do you have any idea about how realistic that is and what your options are if you can't find an operator?

Mr GORDON - Maydena is a different business model. We are effectively the enthusiastic landlord, so from the operators that work out of there, whether it's the railrider or the flyfishing tours or the adventure tours, we just take a proportion of the turnover. It is not as if we are running the enterprise. We are doing that because none of them are big enough to afford the overhead to run the ticketing office and facility where people come through. They are relatively small operators. The other model may be that they put in some common funds and employ those common-service infrastructures. The cooking tours - like Eagles Eyrie - have been quite successful but they're all run on a bookings basis. So it's quite different from the business model of, say, the AirWalk, which is open all the time, or from Dismal Swamp, where again it is opened for set hours, whereas Maydena is effectively bookings only. So if you want to go on the railrider or you want to go on the fly-fishing tour or if you want to go on the bus right up to the top, then you need to book on the Internet or by phone, and then it's open. It is a bit of a different business model so there are a couple of options. Probably the preferred one is to try to get, effectively, an operator for it because I think that is probably better run as a family business than run by a reasonably large company like us.

Mr WILKINSON - So the AirWalk is a profitable concern at the moment; you're not losing on the AirWalk?

Mr GORDON - No, we're making money on the AirWalk.

Mr WILKINSON - You're not losing on Hollybank Canopy Tours?

Mr GORDON - No.

Mr WILKINSON - Maydena, there is a loss?

Mr GORDON - Yes.

Mr WILKINSON - Tarkine Forest Adventures?

Mr GORDON - This year will show a loss because we had a whole lot of one-off costs to hand over to a new operator. After that we just get a proportion of the turnover.

Mr WILKINSON - And there are no other tourist areas that we haven't discussed other than these four?

Mr GORDON - Not that I can think of.

Mr WILKINSON - In relation to other Forestry Tasmania-type businesses around Australia, are any involved in the tourism market?

Mr GORDON - I know that New South Wales State Forest went out to tender recently for two opportunities: one in the head office in West Pennant Hills in Sydney and another one at Coffs Harbour, asking for the Hollybank model. We have a separate operator and an enthusiastic landlord.

Mr WILKINSON - I like this term 'enthusiastic landlord'. It seems to be a new term, is it?

Mr GORDON - It's not simply saying, 'Here's the property, go for it'. In the case of all of our tourism ventures, either operating ourselves or in joint venture or an enthusiastic landlord, there is a common theme in advertising. So it's Adventure Forests; let's actually go out and do something in the forest.

CHAIR - It's a collaborative approach, as opposed to somebody out on their own.

Mr GORDON - Yes. Given that all of our tourism operations are moderately distant from the major population centres, there are some substantial synergies from having that joint approach. In the case of Hollybank, for instance, we get most of the on-the-ground construction work because we're pretty good at building tracks, trails and roads. Nowadays you need pretty strict standard operating procedures, safety and that sort of stuff, and that is part of our core business. If you have people out working for you as logging contractors, harvesting contractors and road contractors, you need to be pretty good at those systems, so as part of that there are reasonably consistent systems as well.

There is also quite a large potential for more tourism operations on the State forests but I think we would probably favour that 'enthusiastic landlord' model rather than a model of us investing in new ventures.

Mr WILKINSON - I ask that because you hear the Greens for example saying there are plenty of opportunities in relation to tourism in the forests. Can you point me to where there's been a successful independent tourist operator in the forests to show me that that is the case?

Mr GORDON - Hollybank is one. I think Dismal will be successful with the new business model. I don't think any of them would have been successful without our infrastructure in place. So if you had to build a road to get to the AirWalk, for instance, I think it is 42 kilometres of Forestry Tasmania road to get there. I think it is almost the same distance to get to Hartz Mountain National Park, which is all State Forest road paid for by harvest and transport fees. We don't get paid a revenue stream for people using that road but when you get to the boundary, you have to pay a fee to get into the park.

CHAIR - You don't get that either.

Mr GORDON - No, we don't get that either.

CHAIR - No, that goes to another department.

Mr GORDON - So we're responsible for the expenditure of the CSOs but we do not actually get the revenue. With a lot of the national parks in Tasmania you go on our roads to get to them.

Mr WILKINSON - So that being the case, has there ever been any discussion in relation to a payment to be made? As you say, they are the roads that you have built, they are the roads that you have built with your expertise, you do not get any money as a result of doing that; other people get the benefit from it. Have there been any discussions in relation to putting a fee on that?

Mr GORDON - The only exceptions are that we have quite a few agreements with mining companies where they use our roads and pay us a per tonne fee. Again, for a mining company to build their own road it would generally be a fairly large capital expenditure, whereas in our case there will be a road going near there and they normally pay the marginal capital cost of the little bit of road on the end and a tolling fee to us.

A lot of our roads go to people's houses but again we do not receive any income stream for that. It takes us to the broader CSO question.

CHAIR - I want to go down that line.

I am interested as to how much you get from the tolling fees from mining as a bulk figure, if you have that.

Mr GORDON - I do not have it off the top of my head. I know there are a couple of major roads.

CHAIR - You charge people for bridges too, I understand.

Mr GORDON - If the bridge needs upgrading more than we would otherwise use it for, yes.

CHAIR - If you would be able to provide that information, that would be good.

Mr GORDON - We could probably give you a total of other users. There are probably some gravel operations as well that we charge. We generally do not charge farm producers; they are only really large users, whereas there are a couple of mines that use, I think, Nicholas Road -

CHAIR - The majority of the others then would be the mining?

Mr GORDON - And some gravel quarry operators.

CHAIR - Which are mining. They are classified as mining.

Mr GORDON - Yes.

CHAIR - So going down the path that Jim was going, the CSO costs or expenses are significant and you do not get the revenue; even if there is revenue to flow from it, it does not come back to Forestry Tasmania so it seems. Do you have a view about whether that side of it, the management of the native forests, the State forests, the firefighting should all be excised and put into parks or whatever?

Mr GORDON - That is one option.

CHAIR - What is Forestry Tasmania's view on this?

Mr WILKINSON - Or alternatively you pay for it.

CHAIR - One or the other.

Mr GORDON - We are looking at what is the most efficient thing to do. Firefighting is probably a good example. We have 250 trained firefighters. This year I think they were used four days on firefighting. We had a really easy fire season. If they had been put into a government department, someone would have had to pay for 250 people for 52 weeks of the year. Our equipment, our heavy duty firefighting equipment is basically gravel trucks so we have a slip-on tanker that is used in the fire season and the rest of the year the tip-truck bucket goes on and they are used for carting gravel for roads. If Parks or Fire Service were operating it then the capital for those trucks would be a one-off capital expense and there would not be another use for those vehicles.

CHAIR - Are you suggesting then that the most appropriate method is for you to keep those within Forestry Tasmania?

Mr GORDON - I am saying that is the most cost-efficient method of doing it.

CHAIR - For the broader government sector as opposed to Forestry Tasmania?

Mr GORDON - Yes.

CHAIR - So how do you see managing that cost?

Mr GORDON - One of the things we have done is last year in our annual accounts we put for the first time an audited statement of what it cost us to manage forests for which we are not able to receive any revenue, so that is the formal reserves, and we also include the special species timbers management units, and that was on a fully distributed cost so that is what it cost if you spread our overheads.

In general they are not large consolidated geographical lumps of land. It is land that is spread through the other State forests we manage. For another manager to manage that, they would need to put infrastructure in place. I suspect that would be a lot more expensive than us operating it as a marginal operation. We were funded for those CSOs up until 1997-98. Again, if you go back to cash flows and you look at what income we would have received if we had been paid for that. It is a large amount of money.

Mr HALL - What year was that up to, Bob, again?

Mr GORDON - 1997-98.

CHAIR - I was not in this place at that time and some of the people here might have been, but what was the reason that that was stopped and have you asked the Government to reinstitute it?

Mr GORDON - If you go back and look at the State's finances in 1997-98, you will probably work out why it stopped; the State did not have any money -

CHAIR - Yes, but up until 2008 we did have money.

Mr GORDON - Correct. We have made an application this year which breaks it down into the various components, including managing the formal reserves firefighting roads, bridges that are not used for forestry purposes. We expect that application to be dealt

with in accordance with the GBE act which says it should be dealt with and if the costs are genuine costs incurred then they should be funded. There will obviously be a debate about that. The alternative is for us to cease doing those things which is difficult because we are caught in the squeeze, because the Forestry Act requires us to manage these areas under good public policy for conservation and for other uses and we believe we should be funded for it. The question for the Government, I suppose, or the Parliament, is whether that the most efficient way to do it. We would argue that it is more efficient for us, for instance, firefighting, to have a marginal cost and to have 250 available for when you need them rather than to put those -

CHAIR - And using them for other purposes when there is no fire?

Mr GORDON - Correct. They are used for other purposes and they are kept fit. By the way, our relationship with the Fire Service and Parks is excellent. We are all interchangeable. A Parks person comes onto our gear and it is exactly the same as our gear, we go on to their's. We jointly switch over people into management teams. At the moment we would not be able to run a major level 3 incident without Forestry, Parks and the Fire Service all being in there because by ourselves none of us have enough people at the right levels to do it, but we can do it together.

Mr WILKINSON - What would the figure be that we are talking about in relation your CSOs that you have just described?

Mr GORDON - In our annual accounts for last year it was \$9.2 million.

Mr WILKINSON - Yes, it was around \$9 million, I can recall.

Mr GORDON - There is an argument. Treasury say that instead of distributing those costs as you normally would do, you have to go back and ask, what is the avoidable cost? We have gone through an exercise in that and it is closer to \$6 million.

Dr DRIELSMA - When we worked out the cost it is the \$9 million or whatever it was that we disclosed in our accounts and we will continue to do that. In our application to Treasury we would have to go through their methodology which is about an avoidable cost basis.

Mr WILKINSON - Can you describe to me what the avoidable cost is?

Dr DRIELSMA - They are saying that you cannot charge Treasury for costs that, if you did not do the CSOs, you would incur anyway. The fact that we have to maintain, say, 250 people, they would say that you have to maintain them anyway. 'The fact that you use them at the margin is not something we take account of. So you just tell us what the extra bit is rather than the average'.

Mr WILKINSON - For example, for the past year you can charge out the 250 people for firefighting duties for four days, is that the type of thing that they are talking about?

Dr DRIELSMA - These areas that we have identified which are the forest reserves and the special timber zones make up 300 000 hectares. So that is one-fifth of our estate. We would take out all of our purely commercial costs, our harvesting costs and things related

purely to our commercial operations and then we are left with basic land management costs, like firefighting, weed control, road maintenance and all of those sorts of things. Essentially - and it is not quite that simple - you would say with 20 per cent of those costs we should allocate those lands. Treasury's view is, no, you have to prove, right down to the last dollar, that you have to spend that bit on those lands and so it tends to be a lesser amount and the amount that we have applied for under CSOs is \$5.7 million and that is our estimate. We received some external accounting advice and figured out an approach to what we would say is the avoidable cost so that if we did not manage those lands, we would be able to reduce our cost but we could not reduce it fully because some of what we have we would have to hang on to. We would just become less efficient and so basically Treasury are saying, 'We are not going to compensate you for that'.

Mr GORDON - But if you looked at it the other way around and you said that Tasmania needed to be able to fight wildfires -

CHAIR - How best to do it?

Mr GORDON - How best to do it is completely different from the question that we were asked on the CSOs, because if for any reason there was not a Forestry Tasmania there would be no way in the world you could fight any major forest fire in the State.

Mr WILKINSON - It is a bit like your defence forces, isn't it? Do you need certain things in place or not? That is the different argument, isn't it?

Dr DRIELSMA - Part of what we do is not just firefighting but it is also preventive work.

Mr WILKINSON - Sure, I realise that.

Dr DRIELSMA - So it is a lot of management and prevention as part of that.

Mr GORDON - It is making sure you have the road access, then your fuel-reduction burning and fire-break preparation. We will not be paid for four days firefighting this year. We only get paid if the amount of firefighting that we attend goes above a 10-year average and we only get paid the overtime component of our people. So we are effectively fighting all those fires. If you go back to the east coast fires four years ago, all those were fought effectively by Forestry Tasmania and they were paid for by selling of forest products.

Mr WILKINSON - Have different States segmented off your CSOs compared to your actual forestry work? If that is the case, have we considered that?

Mr GORDON - If you look at the Victorian Bushfire Royal Commission, they pointed to Tasmania as the way you probably should do it.

Mr WILKINSON - I can understand that.

Mr GORDON - There were a whole lot of problems there about who was in charge, about people not really having compatibility of operating systems, about not being able to respond quickly because you did not have fully trained people. There were a whole lot

of things said there and I suspect that people will have a much closer look at how it is done in Tasmania.

Dr DRIELSMA - Most other States' agencies of a similar character to ours, whether they are government departments or not - the agencies managing the State's forests - do receive CSO funding or are structured in a way such that those costs are part of the government budget sector. For instance, Vic Forest does not pay anything for fire management; they get those funds.

Mr HALL - If the government picked up the CSO obligations, then that would release you from quite a financial burden in terms of a dynamic organisation to a capacity for research, more development, innovation and all those sorts of things. It would take a lot of pressure off the organisation and allow you to get yourselves back into a better financial position.

Mr GORDON - I think it would be fair to say that, despite some media you see occasionally, Forestry Tasmania has not been subsidised by the taxpayers. We have actually been subsidising the Government and the taxpayers for a considerable period of time in the area of roads, management of reserves and management of firefighting. If we had not been doing that and were being paid on a straight contract basis for doing that then we would have a completely different cash flow.

Dr DRIELSMA - Since corporatisation there are three significant factors that have impacted on Forestry Tasmania's profitability and ability to generate cash. We received the CSOs, as we mentioned, up until 1997-98 at that averaged around \$3 million per annum and we have not received any of that since. In 1999 we sold a half share of our softwood joint venture, the proceeds of which were returned to government as a special dividend and thereby we forgo profits from that, which have averaged about \$3 million a year.

CHAIR - Forgo 50 per cent of the profits.

Dr DRIELSMA - Yes, 50 per cent of the profits, so that would have about \$3 million a year or \$30 million over that period. Then in 2002, 2003 or 2004, I cannot remember now, we started to pay rates and that is costing us now \$3 million.

CHAIR - When did you start that?

Mr GORDON - I reckon it was about 2003.

Dr DRIELSMA - We started paying local government rates which is also now \$3 million a year, so there is \$9 million a year of cash that we received at corporatisation that we no longer receive. If that had stayed the same over that period, we would have been in a much more healthy position and our profitability would have been maintained.

Mr GORDON - Unlike most other ratepayers, we provide our own roads, we fight fires for us and everyone else, we don't get our garbage collected and some of us are wondering what we get in return for the \$3 million.

Mr HALL - Does Hydro pay rates on their land?

Dr DRIELSMA - Yes, but interestingly no other forest service in Australia does.

Mr HALL - So you're the only one. Do you think you're being done over?

Laughter.

Mr HALL - The bottom line is that you cop a lot of flak from your opponents about being taxpayer subsidised but from the evidence you have given us it has made things very difficult for you.

Mr GORDON - I will repeat the statement: I think it would be pretty fair to say that Forestry Tasmania hasn't been subsidised. We have been subsidising government expenditure and local councils for a considerable period of time and that has contributed to the decline in our cash position.

CHAIR - So Hydro Tasmania doesn't pay rates on the west coast for their dams and things like that?

Mr GORDON - They pay rates -

CHAIR - They pay rates on their buildings in Hobart.

Mr GORDON - They are supposed to pay it on the land they manage, but that's not very much land.

CHAIR - When you talk to Mayor Gerrity he'll tell you how much they don't pay down the west coast.

Mr HALL - Yes, that's why I asked the question.

Mr GORDON - The only areas we don't pay rates on are the areas managed for conservation. Just to put it in context, if for any reason the Parliament decided to put large areas of native forest out of production and into reserves, that would be an immediate reduction in rate payments by quite a bit of money.

CHAIR - That would help your bottom line.

Mr GORDON - Except that we will lose the cash we would have generated from harvesting the forests.

CHAIR - So swings and roundabouts.

Mr WILKINSON - In relation to the rates you pay, are they normal market rates or are they a lesser rate than would otherwise be paid?

Dr DRIELSMA - I think the rates are the same.

Mr GORDON - We don't pay the fire levy, although I think there's an argument about that. We provide roads that councils and their ratepayers use, some of which are the only

access people have to their home. We provide access to many of the national parks and we are not paid anything at all for those.

Mr WILKINSON - When you look at the \$3 million CSOs -

Mr GORDON - Now at least \$6 million to \$9 million.

Mr WILKINSON - So we say \$6 million now, and \$3 million by selling the half share in the softwood joint venture and the \$3 million in rates, are there any other areas that you can point me to where prior to 1997-98 there were benefits that you obtained as opposed to now?

Mr GORDON - The other one is the impact of removing large areas of productive State forest into reserves. We were paid a one-off compensation package for taking that asset off our balance sheet but the effect of that is that you spend the cash now but you don't get the cash flow for 25 years. We might save some money on rates but we've lost the cash flow.

Mr WILKINSON - Are you able to put a figure on that?

Mr GORDON - If you look at the change in the value of the forest valuation that occurred last year -

Dr DRIELSMA - The change was \$300 million.

CHAIR - Off your balance sheet?

Mr GORDON - And that's because you can't count for your valuation forest that you no longer have access to get the revenue from, but we're bound to manage and expend the money on managing the reserves.

Dr DRIELSMA - Can I just make a point about the CSOs? We need to be very clear about this. The application that we've put in for CSOs is very clearly only a partial recognition of CSOs. We have identified those 300 000 hectares which are in forest reserves or in special timbers units for which there is clear statutory or government policy directives. Given the experience that we have had with establishing CSOs in the past, we have limited it to those where we thought the authority and the direction from government was clear and, in our view, unarguable. The Auditor-General made the point last year in his report that he considers that to be only a partial recognition of the CSOs. We still have a significant CSO component in our commercial zone, so in our general forest, which is not forest reserve or special timbers, where we are undertaking a commercial activity we still have a community fire protection, recreational activities and a wide range of other elements and the things that the Auditor-General has identified - for instance, the constraint to maintain 300 000 cubic metres of sawlog and other things such as being directed to not use 1080, moving to alternatives to clear-fell burn, so the sorts of things that are not part of a general private forest manager's requirements. Those matters we have yet to address and the Auditor-General has reminded us that that is the second part of the job that we still need to do. It's a significantly more difficult task because the activities are all interrelated and there is a question as to what a private owner would do as part of a broader corporate social responsibility agenda versus what we as a

government-owned entity are required to do in State forest. That is a second element we still need to do. I just mention that because if this application is successful, it is only part of the story.

Mr WILKINSON - Even though it's not a CSO, and in my view it is, how many areas and towns around Tasmania have their major base as a result of forest industries? Have you ever worked that out - say, Triabunna?

Dr DRIELSMA - There's a report that the CRC for Forestry has done. They have probably done the most work on this and they have looked at it as forestry as a whole rather than just Forestry Tasmania. You would have to go back to that report, but certainly the usual suspects come up - Scottsdale, New Norfolk and a range of other places loom large. They have looked at it in a local government area.

Mr GORDON - I forgot to table these at the start, which gave an overview.

CHAIR - Is this what you sent out in the e-mail earlier in the year?

Mr GORDON - I'm not sure. Ken Jeffreys asked me to make a correction to the question Mr Wilkinson asked. We also manage the Forest and Heritage Centre at Geeveston. It's an overhead that runs all the back-office stuff for the tourism ventures; it's not an income generator.

Dr GOODWIN - I want to ask a question about the flood damage this year and what sort of infrastructure is outstanding in terms of the need for repair, particularly the infrastructure that might get tourists to tourist attractions. I remember the recent footage on the TV news of carloads of Melbourne tourists being turned away because they couldn't get to an attraction because the infrastructure was washed out.

Mr GORDON - I don't have the update from the rain from the last week. I suspect there were probably some other assets lost then. In the mid-north around Mersey I think it was about \$1 million worth of repairs that would be needed. Not all of that would be needed to get foot access. That is, there is quite a substantial difference in cost between building a bridge for a 3 tonne motor vehicle versus a 100 kilo person. But I think it was several million dollars, if you replaced everything the way it was, that we need to spend.

Dr GOODWIN - That is your infrastructure that needs replacing. What is your plan to deal with that?

Mr GORDON - We will not be replacing the infrastructure. We do not have the cash to do it. I know we have spoken to a couple of service clubs about maybe doing some stuff together but it just highlights that we are not funded to provide those services.

Mr HARRISS - I come back to the tourism area as part of this whole debate and just, very quickly, this notion of the enthusiastic landlord. Would you contemplate then divesting Forestry Tasmania of the profitable tourism components of your business and it may generate significant cash in the short term?

Mr GORDON - You would have to do it based on that analysis, though. You can sell your house and rent back but you have to do the sums on which is the best thing to do. As I

said, most of our tourism facilities are in forest reserves and so sale of the land, effectively, would need parliamentary approval and in some cases, might need approval under the RFA or the TCFA because they are formal reserves. We will probably talk about more in the next hearing but we certainly believe there is still a fairly large, untapped potential for tourism developments on State forests. But all of those would require access to our existing infrastructure. So it is very hard. Take the AirWalk, without all the roads that go to it, you would not be able to make it work. It is probably not the same in Tarkine Forest Adventures, Dismal Swamp. Regarding Hollybank, again without the road access and infrastructure that is there, a separate operator would find it really tough to make that work.

We have identified a few areas of State forests where we believe there is a large tourism potential. We are contemplating preparing expressions of interest, for want of a better word, but again, I think it would be us as the enthusiastic landlord model because in most cases it would be very difficult to run that without us being there - firefighting, road access, infrastructure.

CHAIR - I want to talk about the export market. I do not know if you have been aware of an analysis that has been provided, and I am not sure how publicly, from Naomi Edwards, about the export market and perhaps the change in FT's issues there with the selling of pulpwood into Japan having been challenged. The native forest timber was not deemed appropriate because of the plantation coming out of South America, South Africa and other places.

Mr GORDON - I was not aware of any expertise she had in that but I have not seen the report.

CHAIR - Anyway, I would like to ask a few questions about the export sales and how that works for you. Your annual report 2010 sets out on page 39 the export margin for some export sales. There is \$99 000 on sales of \$6.4 million, which is about only 1.5 per cent. Is this FT's timber and what stumpages are earned, if any, and from where in relation to that timber? It does say that does not include any cash expenses related to roading and replanting, or am I wrong on that?

Mr GORDON - I will go back a step. We were involved in reasonably large export volumes from about 1997 through to about 2006. Part of the reason for those was, you would remember, that back in 1998 the Government released a forestry growth plan which set out getting rotary veneer plants and a whole range of other things. To get those we had to prove to investors that you could make high-strength, high-value veneers out of our logs. Everyone said you couldn't, it was impossible, so for quite a while we exported our logs to China, Japan, Korea and they turned our logs into veneers which were then made into the end market products. After quite a while of doing that we then said to those customers, 'Okay, you have now proved there is a market, particularly for shipping container floors and other high-priced products, so you now have a chance to invest in a couple of mills in Tasmania, and by the way if you don't someone else will and you will not get any more logs'. So it sort of focused the mind a bit and the end result of that was we got the two veneer mills at Smithton and at Huon at the two Southwood sites. I think Huon Southwood opened in 2007 and the Smithton site in 2008. They took a lot of the logs that we were previously exporting and we basically scaled back and halted our log export activities. When the global financial crisis hit and when our major customers had

problems selling lower grade logs in the form of chips, we restarted our log exports again, looking at an even lower - for the want of a better word - and different grade of logs which again our customers in China are currently turning into some completely different engineered wood products which are currently not manufactured in Australia. We have a feasibility study that is almost complete on building a plant in Scottsdale based on some of that work - different type of rotary veneer in a different market. So the figures you see in our accounts for last year were I think the first two shipments restarting our log exports, based on these new markets that we believe are there. They would have included a whole lot of one-off set-up costs because we actually had got rid of our log export yards.

CHAIR - Are these predominantly into China?

Mr GORDON - Correct. We had to re-establish our log export yards with sprinklers and all the infrastructure. We had to get back into the market because remember I went and told these people that they had to invest in Tasmania or we would not be supplying them logs. So there were a lot more set-up costs than we would normally have as a going operation.

CHAIR - You took that approach with Japan -

Mr GORDON - And China.

CHAIR - And Malaysia to get Ta Ann -

Mr GORDON - No, we sent the logs to China.

CHAIR - Previously, I am talking about.

Mr GORDON - That is what it was previously. All the logs went to China.

CHAIR - And now we are into China and they are being sold at very low margins, which one would argue is not sustainable, in the hope that China will decide that they want to use the resource here. Is that the plan or what are you hoping to achieve?

Mr GORDON - Just to correct, we actually sent a couple of million cubic metres of logs to China but we also sent some to Malaysia, some to Korea, some to Japan, but the market was actually developed by the Chinese. So they did all the work on developing eucalypts for high-strength veneers. It was mostly shipping container floors, which are about the highest strength market and one of the highest priced markets you can get. Then we went out to the market to see who would like to establish a plant based on that. Effectively what we did was take the market risk out for a potential investor and we took a lot of the operating risk out because we already had the permits for both the Southwood sites at Huon and Smithton, so their investment decision was a relatively low risk one. What we are doing by restarting these exports is targeting a different grade of logs into a different product and we have only just started that.

CHAIR - So does this explain your low margins at the moment?

Mr GORDON - And at the time we had a whole lot of one-off set-up costs, and the Australian dollar went through the roof and our alternative sales were that our other

customers had basically said that they had problems in the export chip market and all these logs would otherwise have gone as woodchip. What you are seeing is the start up again of what we believe is a second round of getting new high-tech markets.

CHAIR - I hear what you are saying, Bob. It appears that at the moment you are selling at very low margins into China predominantly -

Mr GORDON - A couple of trials elsewhere but predominately in China, which is what we did before.

CHAIR - Yes, but if you maintain that very low margin, which effectively is selling the trees for nothing, then how can that be sustainable?

Mr GORDON - That is not our intention.

CHAIR - What is the intention, then?

Mr GORDON - The intention is to get reasonable prices for the logs and to use our logs to develop this new technology which uses different types of peeling, slicing and reconstituting -

CHAIR - And are you hoping for that to be brought back to Tasmania?

Mr GORDON - Correct.

CHAIR - So what sort of time frame are we looking at and when do you hope to see a change in the profit margin? I am sure that is not going to happen in the next 12 months -

Mr GORDON - It might, it should. The profit margins have already gone up because last financial year we had a whole lot of set-up costs because we had got rid of our log export yards, got rid of the sprinklers that you need to keep them fresh and we had to set up new customers in the end.

CHAIR - So in your annual report your financials should show increased margins for export log sales?

Mr GORDON - If we report separately on export logs. All our logs are exported effectively. Some go through a chipper and some go directly on a boat.

CHAIR - That gets me to the point of segment reporting. You did make some comment earlier on that you were looking at segment reporting in tourism and other areas but you were not looking at breaking it down with the sales of logs and woodchips. Am I right in understanding what you said?

Mr GORDON - The question then is what is the segment? What is the difference between a log that gets sent to Triabunna to get chipped and exported or a log we put on a boat to get exported?

CHAIR - Do you break down softwood and hardwood?

Mr GORDON - Our softwood sales I think are separately reported but they are quite small - other than the softwood joint venture, which is incorporated into our accounts. Even with the sawlogs that we sell the vast majority of those are sawn timbers exported from Tasmania. So what we are trying to do with developing a new export market is take logs which otherwise would have been turned into woodchips and develop the markets for the end products and develop the technology. We have been working with a couple of manufacturers in China who manufacture some of this new technology equipment to design it to cope for our denser and harder logs. We have the first draft of the feasibility study for the plant at Scottsdale and we believe it is feasible using this new technology we have developed with the Chinese.

CHAIR - I am just trying to get around to the segment reporting in this particular area. The Auditor-General refers to percentage movements in sales - dollars and quantities - of various log products, pulp wood sawlogs et cetera, but not absolutely values, so is it possible for you to provide that in more detailed reporting?

Mr GORDON - In terms of the margin for different types of products?

CHAIR - Yes.

Mr GORDON - We have done that in the stewardship report.

Dr DRIELSMA - You can infer it from some of our reports but -

CHAIR - It is a bit hard trying to put this all together; it is not good for the reader.

Dr DRIELSMA - But it would not be in our competitive interest to publicly disclose information at that level quite frankly. It would put us in a very difficult competitive position.

Mr GORDON - We are in an internationally traded market where we have to competitively price our products.

CHAIR - So can you provide a break-up of the forest sales in particular? Like what goes where?

Dr DRIELSMA - Forest sales are regularly reported.

CHAIR - Where are they?

Mr GORDON - In our stewardship report - by product.

CHAIR - Do you also report against the stumps you receive?

Mr GORDON - No.

CHAIR - And that is because?

Mr GORDON - Because our competitors will then undercut us. Again, there is a draft from Treasury about what the guidelines should be for GBEs and SOCs and one of the clauses is that we should charge our customers less.

CHAIR - Less than everybody else?

Mr GORDON - Yes, but why would we charge the Chinese or the Japanese less than the market price for our logs?

CHAIR - Are they talking about the local customers?

Mr GORDON - It does not say that.

CHAIR - No, I know it does not say that.

Mr GORDON - Again, we are in an internationally competitive market. Our major advantage in the market is the density, strength and hardness of our timber. It has taken us a long time to get that recognised in suitable products at the end and we are starting that process again.

CHAIR - Do you separately itemise some of the other expenses against it - contract costs, wharfage costs, roading and everything that goes into producing it?

Mr GORDON - When we do our internal analysis as to what is the best market for our products we do those sorts of breakdowns, as you do on managing your margins.

Dr DRIELSMA - But to disclose that publicly would put us in an impossible competitive position.

Mr GORDON - We've been undercut in the market by other people in Tasmania, and particularly people who have come in for a quick buck as exporters.

Dr DRIELSMA - It gives information to our Chinese customers also in terms of how they negotiate their pricing, so it doesn't make a lot of sense to go down that path.

Mr HARRISS - Sounds like a good argument for native forest retention to me.

CHAIR - As to the consulting you are doing in the Northern Territory, and in China as well -

Mr GORDON - Yes, and in South America.

CHAIR - Anywhere else?

Mr GORDON - Mainland Australia.

CHAIR - That's the Northern Territory.

Mr GORDON - Plus other places. We have been selling our seedlings from the nursery at Perth to mainland Australia for quite a while. We have been providing other technical services for quite a while, within Tasmania and the rest of Australia and internationally.

CHAIR - Are you able to give us some indication of what the gross income has been from that and what your costs are associated with that? How profitable is it?

Mr GORDON - I think last year it was about \$1 million that we earned.

Dr DRIELSMA - Our revenue was about \$800 000, I think, last year.

CHAIR - What are your costs, though?

Mr GORDON - It depends how you do your costs as well. Take LIDAR, which is the laser-mounted topographic GIS information, we have sold some of that information to other forest growers and to mining companies. Obviously we don't charge them the full cost because whatever money we get from that is in addition to what we budgeted to cost for our cost benefit on using LIDAR rather than aerial photographs. The work in China, where consultants help them select the right species of eucalypts, the right variations of those - we have a breeding program in place to assist with nursery establishments where they can grow the trees and then the silviculture. I think the total value of that contract is about \$600 000 over a couple of years. We're expecting to get some more contracts like that, which effectively gets an income stream to allow us to keep our core expertise in tree breeding, forest management and nursery establishment.

Dr DRIELSMA - On the \$800 000 last year, we made a small profit - I can't recall the figure, but it would be tens of thousands of dollars - after we costed in all of our inputs, including our staff time at cost rates.

CHAIR - Do you think it's a valuable use of -

Dr DRIELSMA - Yes, because not only do we cover all our direct costs but we also covered those input costs from our staff. That would be staff time that we would have to cut out of our business, so instead of having 350 positions we might have to go down to 320 or 310, but we're covering a number by contracting out their time into some of this other work.

CHAIR - So you're saying that those people may have had to go onto part-time if they weren't engaged in this activity?

Dr DRIELSMA - We'd have had to look to cut our costs, but what we are doing is offsetting our costs and maintaining access to that expertise for the rest of our business by also spreading it into external work.

CHAIR - You're saying it's providing a small measure of profit at this stage?

Dr DRIELSMA - Correct. This year, weather holding up, we will make a larger profit on that, other than the fact that our LIDAR program has been somewhat slowed down by the rain. There will be a little bit of timing deferral of some of that which will slow down some of the sales in that area this year. But other than that, it has been looking quite positive.

Mr GORDON - In practice you can't have one GIS person or one LIDAR person; you need a couple of them to have critical mass. This allows us to keep the critical mass by getting an income stream that we otherwise wouldn't get.

CHAIR - Just on another point, another little foray perhaps into a different area is the issue of the MIS companies. I think FT canvassed some time ago the idea of stepping into the shoes of some of the failed MIS companies to use your expertise to look after plantations for investors. Has this been discussed by the board and where is that at?

Mr GORDON - We are still pursuing that. As you would be aware, the process for most of the administrators and receivers is still ongoing and we are actively looking at that as an option.

CHAIR - I just have some concerns about how that would affect FT's cash flow again in that generally when MI schemes operate on a deferred-fee basis.

Mr GORDON - We would be looking at providing technical expertise and management.

CHAIR - Not managing the trees?

Mr GORDON - Well, managing the trees but not being the owner of the trees. So the cash in MIS is if you are the owner of the trees and they need work on them you have to pay for them. We are looking at provision of technical services. We have already been selling -

CHAIR - And being paid for that?

Mr GORDON - Correct.

CHAIR - So there would be very low costs to FT?

Mr GORDON - We would expect to earn a margin on whatever our costs were.

CHAIR - With regard to the seven Tassie Trees Trusts that are mentioned in your sustainability report, because these projects are conducted off the balance sheet, as I understand it they are owned by investor or growers and each project would prepare its own set of financials, is this the case with Tassie Tree Trusts and who prepares the accounts and audits them?

Mr GORDON - The Tassie Trees Trust was us entering effectively into the MIS space from 1997 through to 2000 but we structured it quite differently. We provided the land and we provided the management of the trees and in return take a 50 per cent share of the crop. So our 50 per cent share of the crop would be in our accounts and the way it works is that first thing the investors take effectively all of the wood at thinning and get paid out and then it becomes FT's plantation straight after that.

CHAIR - So you do not get anything at that point, you get all yours afterwards?

Mr GORDON - Correct.

CHAIR - So have you received any income from them yet? I am not sure how old they are.

Mr GORDON - They are just going through first thinning now, most of them.

CHAIR - So the answer would be no then?

Dr DRIELSMA - The oldest is around 10 years.

Mr GORDON - A couple of stands grew much, much better than we had predicted in the offer document and from some of those would have received an income because there was much more wood than the half needed to service the investors, but it would have been fairly minor.

Mr HALL - To clarify matters here - and these are quotes from an ENGO who provided us with them in terms of subsidy from the taxpayer. That has always been those groups' biggest criticism of FT. It says in 13 of the last 15 years that FT has been the recipient of grants from State and Federal governments to assist and carry out its activities of over \$230 million. Then the final bit says that for the past 15 years Forestry operations have been a net cost to the Tasmanian and Federal governments of around about \$130 million. How do you respond to that?

Mr GORDON - Well, it is basically untrue. It is a bit like saying the Government wants to build a road and they take your house away and they pay you compensation so that somehow is a grant or a subsidy. What happened was that substantial areas of production forests got taken out of production and put into reserves. We were compensated for the wood value on that and we were paid that money as compensation. I am not sure how anyone could misconstrue that as a subsidy. That is what that argument appears to be trying to do.

CHAIR - We are due to finish at 1 p.m. We are due to come back at, is your understanding 2.30 p.m. hearing this afternoon.

Mr GORDON - I thought it was 2 p.m. but I might be wrong.

CHAIR - There are a few other questions that I still have in relation to this if you could reconvene at 2 p.m. and just finish those few off and then start the transition from native forests. The secretary has informed me here that the media release said 2.30 p.m. to 3.30 p.m.

Mr GORDON - I have got 2 p.m. to 3 p.m. in my diary.

CHAIR - I did have a couple more questions about the GMO joint venture and how that actually works but if that is okay with you, Bob, I might put some of those in writing. I might write to you just to get the details about those.

Mr GORDON - Yes, that is fine.

CHAIR - There are a couple of other areas. Also, a bit further on, the unfunded superannuation liability. You have been asked some of that and I had a couple of questions previously. So thank you for your attendance today and providing the information you have thus far and I am sure you are looking forward to coming back after lunch.

Mr GORDON - That is good.

THE WITNESSES WITHDREW.