

**Tuesday 1 December 2009 - Legislative Council - Government Businesses Scrutiny  
Committee - Forestry Tasmania**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**Tuesday 1 December 2009**

**MEMBERS**

Ms Forrest  
Mr Hall (Chair)  
Mr Harriss  
Mr Wilkinson

**IN ATTENDANCE**

**Hon. David Llewellyn**, Minister for Energy and Resources

**Ministerial Office**

**Ms Karen Vadasz**, Adviser  
**Ms Pam Voss**, Adviser

**Forestry Tasmania**

**Mr Adrian Kloeden**, Chairman  
**Mr Robert (Bob) Gordon**, Managing Director  
**Dr Hans Drielsma**, Executive General Manager  
**Mr John Mazengarb**, Chief Financial and Commercial Officer

**The committee met at 9 a.m.**

**CHAIR** (Mr Hall) - Good morning and welcome to the first GBE. Welcome, Minister - we have you for the whole day, and I do not know whether that is a good or a bad thing. I remind everybody that we are on live stream and being televised. Minister, we invite you to make an opening statement.

**Mr LLEWELLYN** - We are very pleased to be at the GBE Scrutiny Committee again with the Legislative Council. It is true to say that with the global financial crisis, a number of our businesses, just as the Government's have, felt the strain but we have taken action to address the issues. This year Forestry Tasmania recorded a \$9.3 million operating profit, which was slightly up on last year's but again the issues that confront us are there and we obviously have to take them into account. The softening of demand for our products, particularly internationally, has been a problem and no doubt we will have more to say about that as we go along.

I think one major issue, from a policy point of view, that I will mention, although I cannot say too much about it, I suppose, is the review of the Regional Forest Agreement which has been under way for some time. We have been waiting for a response from the Federal Government and I think it is very close to being finalised.

This is the last round of the Regional Forest Agreement and some time later - in 2017 - we will have to review the resource security question with the Federal Government, and that is a very important issue because it obviously provides security for businesses into the future. That is one issue.

The softening of our markets at the moment has created quite a bit of stress within all sectors of the industry, particularly in the contracting area of the industry, and we are trying to manage that as best we can. But I think there are some very positive things that we will be able to share with you during the Estimates hearings.

I will hand over to the Chairman to make some introductory remarks, and I think he will cover most of those areas. We don't want to duplicate, do we?

**CHAIR** - No.

**Mr KLOEDEN** - Thanks, Minister, and thank you, Mr Chairman, for providing an opportunity to make a few opening remarks today.

Strange as it may seem, at Forestry Tasmania we actually look forward to appearing at these hearings and although preparing for the hearings involves a lot of work, and I thank the staff for that work, these hearings do provide us with an opportunity to outline our plans, strategies and our aspirations for the future, as well as reflecting on the year past.

While we will certainly try to be as informative as we possibly can, the time the committee has today may mean that we will not be able to explore every issue as fully as we might like, and there might be matters that we do not even get to. So if there are any questions we still have after today's hearing, can I commend to you our annual report in a new format, the 2008-09 Stewardship Report. We are quite proud of this report because for the first time our annual report brings together all the threads of the business in one easy-to-read document, and it does it in two ways. Firstly, it reports on the sustainability charter, which we developed last year that clearly set the direction for the business for the next 10 years. The Stewardship Report provides a report card on whether we achieve the objectives and aims of the sustainability charter. Secondly, in the past Forestry Tasmania produced two reports each year - the annual report, which focused on our financials and our governance, and the sustainability report which looked at our progress towards social and environmental targets. This year those two reports are combined into one holistic Stewardship Report, and that has taken quite a lot of doing.

The report contains data that in previous years has not been available until March the following year, and certainly was not available for these scrutiny hearings. It has been quite an effort getting that data together and I commend our staff for that. By having that information in one document, I hope that people can see that we are genuinely committed to transparency.

Mr Chairman, in 2008-09, Forestry Tasmania had a \$9.3 million operating profit, and that is up slightly on the \$8.5 million recorded the previous year. It is not a spectacular result but it is solid, given the challenges resulting from the global financial crisis.

It was very much a year in two halves. In the first half, demand was relatively strong before falling away quite dramatically in the second half. The downturn has persisted since December and it is deeper and more prolonged than we had expected. The global financial crisis has impacted on demand in our largest market, Japan, and reduced demand has continued into 2009-10, and has adversely affected us, our contractors, and the entire forest industry.

Our priority now is to seek out and secure new markets. We are leaving no stone unturned. For example, we are actively pursuing customers for lower-grade kiln logs. These logs are not of sufficient quality for the Ta Ann mills and Huon and Southwood but they are better-quality pulp logs. If we are successful, it will mean the resumption of whole-log exports providing more work for contractors. Despite the downturn, Forestry Tasmania has been able to, in part, insulate its contractor work force. So far this year our contractors are working at about 75 per cent of their quota and we know that when the market recovers we will need all the contractors who are on our books - from our perspective, with about the right number of contractors for normal operations. We acknowledge, though, that we and the contractors are going through a period of abnormal conditions. Our priority is to keep the work flowing and that means looking at all options.

Mr Chairman, we are also developing alternative revenue streams. We have established a consulting arm called Forest Technical Services which has already won contracts in South America, China and within Australia using the expertise we have developed in forest management over the last 90 years.

Perhaps the highest profile of all the Forest Technical Services projects is the memorandum of understanding we have with the Gumatj Corporation in the Northern Territory. We admire greatly the determination of Galarrwuy Yunupingu to provide for his people a sustainable source of revenue from employment breaking away from welfare dependency. We are working in partnership with Fairbrother and the University of Tasmania to provide low-cost housing and to develop a sustainable, small-scale timber industry for the Gumatj people. We have established the trees on farms project where we are partnering with Tassie farmers to plant woodlots on gorse-affected lands and to provide environmental plantings for swift parrot habitat.

Our tourism portfolio has been restructured under the Adventure Forests brand. The model we have adopted is based on having dynamic site management completely responsible for day-to-day operations all operating under the Adventure Forests brand. As you may be aware, Hollybank Treetops Adventure, which operates as a joint venture between Forestry Tasmania and a private company, recently won the Tourism Industry Council of Tasmania award for major tourism attractions.

In August, Forestry Tasmania called for expressions of interest for Tarkine Forest Adventures. On 5 November, Forestry Tasmania chose a preferred partner for the site and has been in negotiations since then. Unfortunately the two parties have been unable to agree on terms

and we have now exhausted that possibility. We will now revisit other expressions of interest to determine the best way forward. We have, however, assured staff that the site will continue to operate under FT management for the coming tourism season.

Mr Chairman, Forestry Tasmania's standing in the community continues to rise. We now commission six-monthly tracking surveys through EMRS and the results are encouraging. The percentage of those surveyed who have had positive views about Forestry Tasmania as a good corporate citizen has risen from 57 per cent in August 2008 to 63 per cent now. Conversely, the percentage of those with a low opinion of Forestry Tasmania has dropped from 26 per cent to 22 per cent.

One of the reasons Forestry Tasmania enjoys such a broad support in the community is that in addition to our commercial activities we also provide a range of community service obligations and other non-commercial activities. Collectively the value of these non-commercial activities equals or exceeds the entire profit of the corporation. No private business is expected to undertake this type of activity.

We also believe the growing support for FT is directly related to the unpopular illegal protest conducted by organisations like Still Wild, Still Threatened. Two successive surveys have shown that more than nine out of 10 Tasmanians are opposed to illegal protesting. It is also clear that our new proactive approach to engaging with the community has unsettled our detractors. For example, our Going Bush television series was extremely popular, reaching one in three Tasmanians, and despite overwhelming feedback there has been a concerted effort to pressure us to take it off air. Another example was a Timber Communities Australia exhibition on the front lawns of Parliament in October showing the rubbish left in State forests by illegal protestors in the Florentine. I was disappointed to learn that these protestors attempted to disrupt the TCA event by standing in front of the display and blocking the view of the passing public. FT supports freedom of speech; we support the right to protest provided the protests are legal, peaceful and truthful and thankfully it is a position that the Tasmanian community agrees with.

[9.15 a.m.]

In conclusion, 2008-09 was a challenging year. The current year will be even more so but I am pleased to report that we are continuing to move forward, continuing to be innovative and continuing to be mindful of the community's expectations of us as stewards of the forests. Mr Chairman, we look forward to today's discussions.

**CHAIR** - Thank you, Adrian. Minister, it will probably come as no surprise that the committee will focus on financial aspects of the report in the first instance. I might lead off and I will ask another, more generic question and that is regarding the annual report itself this year. Why has it been presented in the format that it has and not in a hard copy as are all the other GBEs at this stage?

**Mr LLEWELLYN** - We could ask Mr Gordon.

**Mr GORDON** - This hard copy?

**Ms FORREST** - That is on the disk only. The financials are only on the disk and that is the point of the Chairman.

**Mr GORDON** - If that is a problem we are happy to discuss it, but the feedback we got overwhelmingly from previous annual reports was that people were interested in the financials but they were also interested in the rest of the business, and the vast majority of people nowadays use the Internet or their computer to read stuff, and all of it is on our web site as well. If the committee would prefer us to put in the hard copy of the financials of the annual report, we can just print those off but in previous years we have printed off lots at great expense, suspecting that very few people were actually interested in that part of it as such. It is still there but it is just in a different form.

**CHAIR** - I think, particularly for MPs, that even 40 hard copies is probably something that is needed because I know, and I just make that point, that in other jurisdictions it is in electronic form in some cases, but tabled papers are required under statute to be in hard copy, as the capacity to read the electronic version in years to come may be lost due to advances in technology, with a result that the public record is effectively lost, so I just thought I would point that out to you as a matter of interest.

**Mr LLEWELLYN** - Thank you very much. I do not think that the public record is going to be lost because there are in fact hard copies of the financial report. But I take your point that perhaps we should have produced a copy for each member of parliament as such.

**Ms FORREST** - Particularly for the financials.

**CHAIR** - Yes. Minister, the Auditor-General in his report has recommended to the board -

'To give consideration to restructuring Forestry's income statement to separately highlight community service obligation costs' -

and he talked about some of those matters there -

'and other costs not directly associated with Forestry activities.'

He goes on to say:

'The disclosure of such information may assist readers to better understand the impact of costs on Forestry's financial performance.'

Basically, the question is whether the board will be implementing those recommendations of the Auditor-General.

**Mr LLEWELLYN** - I think the Chairman has half-answered that in comments that he made in the introduction when he said that Forestry Tasmania in fact has a large number of community service obligations which it carries and perhaps other organisations or other private companies do not have those sorts of obligations. I think that they ought to be fairly clearly identified and I think they are in the annual return, the discussion of providing roading and all those sorts of things, but again I defer to the Chairman or the Managing Director to answer that.

**Mr KLOEDEN** - They are clearly defined but there is a great deal of work going on at the moment to bring even greater focus to that. But the Managing Director can point to them in the report.

**Mr GORDON** - Mr Chairman, we were quite pleased that the Auditor-General came to that conclusion because it has been an issue for quite a few years that focusing on the statutory accounts does not give you that information. So if you have pages 22 and 23 of the Stewardship Report, there is a summary of those CSO costs. The Auditor-General also approached us about doing a more detailed study of other costs that Forestry Tasmania bears because of the other services it is required to provide -

**CHAIR** - Like the management of reserves and those things?

**Mr GORDON** - Correct. We have provided a whole lot of information to the Auditor-General on that, which he is reviewing. I think he calls it a performance audit. We are in the middle of that process with him, following up from the recommendation made in his annual accounts. He was intending to have that out sometime soon but he has been given a few other higher-priority tasks that put ours aside a bit. I would expect certainly sometime next year there would be a report from the Auditor-General outlining some of those other costs. I know he has commissioned some independent analysis of those issues as well. We have at least made a start on it in the stewardship report but, as he noted, it is very difficult sometimes to do that in the statutory accounts because it does not really fit the accounting standard framework so we are looking at providing the information in a fuller and more different way.

**Mr WILKINSON** - In relation to your profit, your CSOs would dig into the profit quite substantially, I would think, and therefore Forestry are at some disadvantage compared to a lot of other GBEs because of their CSO obligations. Have there been discussions at all with government in relation to those obligations and, if not, should there be?

**Mr LLEWELLYN** - Historically, there was a time when the Government made a contribution to the Forestry Commission in regard to some community service obligations. I cannot recall, in my time, the Government making a full recognition of community service obligations. In more recent times, particularly since the Forestry Commission changed its status, Forestry Tasmania has taken care of its own community service obligations and I think that has resulted from a lot of criticism and pressure that may have been applied by certain people on Forestry Tasmania over time; they believed it was the right and proper thing to do. I think there is insufficient recognition that they do that.

**Mr WILKINSON** - When you look at the profit, which is a slight increase from last year, given the investment it is not a good business. However, people do not take into account what affects that profit - such as tourism aspects, your research, your firefighting, your managing of forest reserves et cetera -

**Mr LLEWELLYN** - And roads and signs.

**Mr WILKINSON** - Yes. I think there should be a greater emphasis on that and if not, a decision whether to stay in this area or some change to ensure a profit or a loss strictly in relation to forestry workings.

**Mr KLOEDEN** - There is no doubt that Forestry Tasmania, operating as a government business enterprise, is not an entirely commercial corporation in the sense that a private sector company would be. We have a broad range of issues we deal with. Some of them are reflected in community service obligations but if you look at our sustainability charter, you will see the aspects of sustainability that are very broad and very diverse and come at a cost. We choose to

deliver services in those areas. As I alluded to in my opening remarks, private companies do not have those obligations because they have different sets of objectives. So a purely raw financial appraisal only of Forestry Tasmania is not a completely realistic way to look at Forestry Tasmania.

**Mr LLEWELLYN** - I support what you are saying in a sense, but you can understand that this evolved over time for various reasons. Another example would be that Forestry Tasmania do a tremendous job in regard to environmental management of the land that they have responsibility for. The entomologists, the botanists and those sorts of people who beaver away and provide really good outcomes from an environmental point of view within Forestry might be considered as not a core part of Forestry's functions of producing timber but a lot of others would argue that it is very much part of their core function. If it was not provided by Forestry Tasmania it would have to be provided in the resource management and conservation area of my department, the Department of Primary Industries, Parks, Water and Environment. That amount of money would have come out of consolidated revenue to pay for those roles because they are very important roles and they need to happen.

**Mr WILKINSON** - If it were a private business somebody would be asking how to improve the business by way of a bottom line and would look at the CSOs and costs.

**Mr KLOEDEN** - Just to name a couple of other differences, I do not know a private sector company that only uses 1 per cent of its asset base for commercial purposes. In the private sector to use such a small portion of your asset base for commercial purposes would not be considered sound commercial management, but there are very good environmental reasons we do that.

We are also in the business of sustaining employment, for example, so all the decisions we take have a consideration of sustaining employment. As I alluded to in my opening remarks, we employ contractors in this State at the highest level that we can for the employment benefits for the individual but also for the ongoing economic performance of Tasmania when the markets do return when we will need those contractors to deliver the goods.

There are many examples of how we are not directly comparable to a private sector company.

**Mr WILKINSON** - But you are judged that way, aren't you, by a lot of people?

**Mr KLOEDEN** - By some, yes.

**Mr LLEWELLYN** - On that point I have to say that the other main private company that is involved, Gunns, are also taking a similar view with regard to their contracts because they need the contractors on an ongoing basis also. Everyone has to absorb a little bit of the pain in this economic financial crisis that we are in at the moment. I think that the Managing Director might want to say a few words also.

**Mr GORDON** - I think the interesting thing that you raised was also about efficiency. For example, we have about 300 people trained as firefighters. If we took a straight commercial approach then we would not have the interagency firefighting agreement and the State would need to fund 300 pieces of extra firefighting equipment and 300 people to fight fires because if there is a forest fire, we fight it. That would not be very efficient; it would actually cost the State much more if it had to fund separately those people to be available for the four months of the year when the fire danger season is on.

**Ms FORREST** - Does that not strengthen the argument, though, of some support from government for that purpose? That is a clearly identified community service obligation.

**Mr GORDON** - It is always a difficult question, though. We are paid for our firefighting activities above an average level. If we have a bad season we are refunded the overtime component and we are funded when we are clearly fighting fires on other people's land. It is always a bit of a grey area and our attitude has been and the attitude of Parks and Fire Service has been to let us have the most efficient system. The organisation best placed to attack the fire attacks the fire and we sort out everything else later. There has been criticism in Victoria about multiple agencies and who was dealing with what, but in Tasmania we do not have that problem. I think we are all quite proud of the fact that it is a very efficient system, it works well and it is almost certainly the cheapest way you could do it.

We were paid a CSO from Treasury in the early days and I think Aurora has paid one for subsidising pensioners and Hydro, I think, for operating the King Island power generation, but we are not paid any money from government. That is a matter for government. I think our obligation, and something we are pursuing with the Auditor-General, is to make it clear and transparent what costs we bear that if we were making strictly commercial decisions we would not bear and also what the costs would be for an alternative provider - for example, you mentioned managing the 700 000 hectares of State forest that is not available for wood production. We effectively manage that for free. When areas were taken out of State forests and put into National Parks the Government had to pay money for those areas to be managed by National Parks.

**Mr WILKINSON** - Because you're looking at about \$5 million for these other issues?

**Mr KLOEDEN** - They are the ones we have reported; we believe it is a much larger number than that, which is the question the Auditor-General raised.

**Mr WILKINSON** - That is what I was trying to get at. What do you believe it is?

**Mr KLOEDEN** - It could easily be in the twenties. But again, what we do not want to do is be an advocate for that. What we are asked to do is provide information to the Auditor-General. He has taken some independent advice on that and presumably he will come up with his views, which I believe will be published and presented to the Parliament, about the sorts of activities that we undertake. For example, I do not know of any private companies that provide roads to other people's land for free. We provide most of the roads that go into the national parks system. There are a lot of individual householders whose only access is on one of our roads and we do not charge for any of that.

**Mr WILKINSON** - Some people are saying that Forestry does not return the profits that it should, considering the investment in relation to forestry. I think it is only fair that people should realise exactly what the figures are in order to make that judgment. To me, it seems at the moment that those figures are not out there in a transparent way for people to make that judgment. That is what I am looking at, if there is a way to make it transparent, allow the people to see exactly what Forestry is doing in all these other areas and then they can make a judgment on fair figures, because at the moment I do not believe it is being fair.

**Mr LLEWELLYN** - I would agree with that. I think we need to perhaps try a little harder to make those figures more transparent but there are a lot of detractors in the forest industry, as you know.

**CHAIR** - We will get back into the nitty-gritty of the financials in a minute, but as a broad statement - and it has been put to us, I think, by some stakeholders and you have probably heard this before - a constant criticism of FT is that it is neither government nor private. To use an old adage, it is neither fish nor fowl, and therefore it should be separated into entities, as in Victoria and other jurisdictions. VicForests run the commercial arm and then you have another side of it that runs the regulatory role. Would you like to comment on that, Minister?

**Mr LLEWELLYN** - I notice a big difference from the way Forestry Tasmania is managed now to when I was first Minister for Forests from 1989 to 2002 when Forestry was operated as a commission. From a government policy point of view, there was a direct involvement by government in forestry matters during that period, which now does not occur in the same way. Obviously, as a stakeholder or shareholder, I regularly meet with the chairman, the managing director and others in Forestry Tasmania and they inform me, and the Treasurer as the other shareholder on behalf of the people of Tasmania, what is going on but we leave the management and operation of Forestry Tasmania to the corporation and to the chairman of the board and the managing director. So it is quite different now from what it was. From that point of view, we would probably use fish or fowl - it was certainly different - but I think it is managed in a much more effective and efficient way now.

**CHAIR** - Does it create any tensions within the organisation, as you operate it at the moment? On the one hand you have to try to make a profit, return a dividend and still be a regulator. Do you have competing interests, I suppose, within the -

**Mr GORDON** - We don't have any regulatory powers.

**Mr LLEWELLYN** - No.

**CHAIR** - No, the FTA are the regulators in that respect.

**Mr GORDON** - There is a separate regulatory authority.

**CHAIR** - Yes, true.

**Mr GORDON** - We are treated the same as everyone else. To reinforce the point again, the most important thing is that we transparently show what costs and what services we are delivering in a non-commercial manner.

If we go back to the Victorian example, all the feedback I have had from Victoria suggests that the system they have probably does not work very effectively. The best examples are Victorian wildfires. There were challenges in fighting the fire because there were different organisations but, more importantly, they had something like 50 million tonnes of timber burnt and no-one was responsible for the salvage. VicForests get a list of coupes that they are allowed to log for the next three years. No-one told the wildfire that it was supposed to burn those coupes. So they had to go through a process of, 'Who is responsible for these areas that burnt, that need to be salvaged quickly?'. Well, I think that took about six months to sort out. Obviously if you want to salvage it for sawlogs, you have about three weeks.

So there has been a whole lot of problems with that apparent diversity of responsibility and authority in Victoria. I think there are tensions in terms of managing commercially but I would like to talk about managing efficiently. We benchmark our costs. We know what it costs us to build a road, we know what it costs others to build a road, we know what it costs to put plantations in, we know what it costs to fertilise, and I think we are a very efficient producer. We just need to record the fact that we are expected to provide a whole range of other goods and services for which we are not paid.

But I think Dr Drielsma wants to add something.

**Dr DRIELSMA** - One of the things that is important to recognise is that there are some activities which are clearly identifiable as CSOs. I guess you would say that they are things that, as a commercial entity, you might be indifferent about whether you do or you do not do and we have tried to record some of those in our Stewardship Report. We have taken a fairly conservative view in the sense of a fairly strict view of those elements, and it comes to only \$5 million.

But as an organisation that is set up under a statute, the Forestry Act, with certain long-term sustainability objectives, we take a commercial view, which is a long-term commercial view, as distinct from what a company might take that is trying to protect their share value today. We do not take a short-term commercial view. There is a range of things that we do, which is what Bob was alluding to earlier, where we take a long-term commercial view. I do not think it is a non-commercial view, it is just a long-term commercial view, which means that our short-term profitability may be less than it otherwise would be, but we think that that is consistent with the charter that we have as a publicly-owned entity with a commitment to long-term sustainability. I know that that is part of the discussion that we have been having with the Auditor-General in terms of trying to understand how you recognise that and report it.

The point I wanted to make is simply that there is not a black-and-white separation of CSOs and non-CSOs. There is an element of, 'What business are we in? Are we in a short-term profit business or a long-term sustainability business?', and we put a lot of investment into things that go to long-term sustainability like the \$4 million in research, like the way that we do our sustainable yield and our commitment to 300 000 cubic metres of sawlog to support an industry in the long term.

These are factors that a company operating in short-term markets would not be doing. It would be getting rid of its research costs at the current time, as we have seen other companies do; we would be maximising our short-term production, as we have seen other companies do to the detriment of long-term sustainability.

**Ms FORREST** - Going back to what we were discussing earlier from Jim's questions, the only way that I say that we can get the figures that we are seeking here is through sector reporting. There is no sector reporting that can clearly identify, that breaks down these areas. Are you able to provide sector reporting and break it down from, for example, the tourism side of it? All of them need to be broken down, I believe, into their costs of advertising and promotion, and all those other costs associated with that particular sector as well.

**Mr GORDON** - Regarding the exercise we are doing with the Auditor-General for tourism, for example, we run the stand-alone paying tourism ventures as separate internal businesses, so

they are just run as different profit centres. But I think more people still visit State forests than they do national parks. When you go for a drive down the Southern Forests or the South Arthur Forest Drive, we do not charge people for that but we do record the costs of those non-commercial tourism activities separately, and that is what we are talking about in the CSO. We are not talking about running the Tahune Airwalk or Hollybank.

**Ms FORREST** - No, but all of these things need to have some sense of reporting, and we just do not have it.

**Mr GORDON** - Which is what we are doing with the Auditor-General, actually breaking that down so that there can be a discussion with transparent information about which of these things are costing us money for which there is no matching money stream. There may actually be a non-market good and service output like the firefighting one or tourism, or the long-term conservation goals so that we can have a debate with our owners about which of these things they want and expect us to provide, and which of them they would be indifferent to.

There might be things that we are providing that are not important to anyone else. I suspect access to national parks is probably something we would be expected to provide, or access to people's houses, but until we have actually gone through that exercise with the Auditor-General, it is difficult to have that debate with an independent, informed source of information. Our internal accounts can break all that stuff down. That is our view. The reason it has gone to the Auditor-General was that he wanted to have an independent look at the way that is set up rather than just us saying, 'We think we've spent \$20 million, pay us for it'.

**Ms FORREST** - Yes. When you say it is approximately \$20 million on page 22, it does not add up to \$20 million.

**Mr GORDON** - No, because they are the ones that, as Hans said, are clearly identifiable and not arguable. There are a whole lot of others that we believe are non-commercial activities. Again, we have given that information to the Auditor-General for him to come back and have an analysis. It is in our commercial interest to say a whole lot of things are non-commercial. We have to try to have a rational and objective debate about it.

**Ms FORREST** - The question I asked, though, is are you able to provide that breakdown of costs, and the sector reporting and the financials to the committee? Maybe not right now if it is not available right now, but to the point that we can look at how much is spent on promotion, advertising and not just tourism but for the whole sector. I think we all appreciate that some of it is to mitigate potential harms that are done by other parties that Forestry probably see as a necessary cost.

**Mr GORDON** - The big-ticket numbers are not advertising or promotion; the big-ticket numbers are things like managing the 700 000 hectares. There is a breakdown on page 16 of the financial accounts which -

**Mr LLEWELLYN** - Just while you are finding that, I think there is one aspect that the committee needs to bear in mind, and that is there is a fair bit of advertising that goes on in the forest industries that is not centred around Forestry Tasmania. There is a lot of advertising that has come from the Forests and Forest Industry Council and also the Forest Industry Association of Tasmania that do a lot of advertising. So there are two bodies that in fact advertise and promote

the benefits of forest operations and the timber industry in Tasmania outside of Forestry Tasmania.

[9.45 a.m.]

**Ms FORREST** - To go back to the question I asked, are you able to provide that information? I think the general public probably do not distinguish between what is a Forestry Tasmania promotional activity and what is another forestry body, so it all gets lumped together. So in the interests of being transparent and in the interests of informing the public and informing us as members of parliament that information would be helpful so can you provide it and will you provide it?

**Mr GORDON** - I am happy to provide it. It is not a very big number and we are happy to provide it.

**Ms FORREST** - I am not just talking about that one aspect, it is the central reporting across the whole of Forestry Tasmania.

**Mr LLEWELLYN** - That is the issue that is subject to the Auditor-General's discussion at the moment and possibly will be subject to his report where no doubt he will include all of those things.

**Dr DRIELSMA** - There is an issue here also about the level of reporting that is required of us as a commercial entity and the competitive position that puts us in. One of the factors that constrains our ability to act commercially is the extent to which we might have to disclose things that a commercial entity would not normally disclose and therefore puts us at a competitive disadvantage. So I think you do need to consider those elements.

**Mr GORDON** - The good example is where there was a request for us to release the commercial contract between us and the television station. We knew that we got a price considerably better than other GBEs that had done similar things and that commercial negotiation would have been put in jeopardy if we had to reveal all our internal contract negotiations. The objective of the party seeking information was to stop us providing information on forestry activities, which we are required to do under the act. There will be some things that we will not be able to give you a specific commercial negotiation contract rate on but the general principle of providing information I do not have a problem with.

**Ms FORREST** - It can be in your interests to do so, I would have thought.

**CHAIR** - Yes.

**Mr LLEWELLYN** - As I say, as minister, I think it is important that we do advise people about these things. It is only positive that we should. We have other parts of my agency where this has been an issue for very many years as well and we have struggled with some of them. Inland Fisheries Service is a good example. It might not be the principal revenue earner for Tasmania but nevertheless they have to perform their role in resource management, conservation and those sorts of things and they are recognised partially by Government but there are always arguments that they ought to be recognised even more. To that extent they have had to operate on their revenue that they receive from licence fees and the like with this augmentation from a government point of view, but if the IFS did not do the sort of things that are required then again there would need to be more resources within my Department of Primary Industries in the

resource management conservation area to cover that shortfall. We need to know what the freshwater ecology is and what fish species and so on - entomology in the water systems and those sorts of things - are all about to provide proper advice for good environmental sustainable management.

**Mr WILKINSON** - Ruth, are you asking for a breakdown of those figures to be supplied to us?

**Ms FORREST** - Yes.

**Mr GORDON** - The breakdown of our promotions.

**Ms FORREST** - No, all sectors. You have your research, land management, roads and all those areas.

**Mr GORDON** - The ones we term non-commercial or all of them?

**Ms FORREST** - I think if you are going to do full-sector reporting you are going to provide all of it.

**Mr GORDON** - All we have provided to the Auditor-General is that information with our estimate of a breakdown and he is doing some independent analysis of that. He is doing some benchmarking and those sorts of things and that may be a more efficient -

**Ms FORREST** - I just think it is helpful to know what is being spent where, particularly when there appears to be a fairly clear cash flow problem here with some of the TCFA money being used to fund, it would appear, some operational costs. If there are ever recommendations for change you really need to know where the cash flow problems are arising from.

**Mr LLEWELLYN** - There is a difficulty with that request in the sense that it is a subjective argument as to what is actually commercial and what is community service obligation. That process is now being assessed by the Auditor-General to do as good a job as he can to dissect the community service obligation from a commercial activity.

**Ms FORREST** - So he is looking at both then, the commercial and non-commercial?

**Mr LLEWELLYN** - Yes. We could supply the committee with what we supplied the Auditor-General and you could make a subjective judgment as well but he is doing that and will report shortly.

**Mr GORDON** - He has basically asked almost the same series of questions that the committee has asked although he has dug down a lot deeper and we have provided different bits of information. He has an independent accounting firm in. He has had some other people in and I imagine that will probably be on an objective basis rather than our advocating a position.

**Mr WILKINSON** - Do you know when the report is coming out?

**Mr GORDON** - I don't. I know that he did have it scheduled and then he was given some other tasks, nothing to do with forestry, by other people and that altered his program.

**CHAIR** - Through you, Minister, can the information be supplied to the committee that is being supplied to the Auditor-General?

**Mr GORDON** - I just need to check with him. I do not know the protocol of that but I don't have a problem with it. It is just that it is our position, it is not his necessarily.

**Mr HARRISS** - Mr Chairman, what Hans has mentioned will come to the table. There are commercial-in-confidence matters which clearly will not come this way and I accept that. In the past, we have obtained from FT, in camera, the breakdown of the tourist operations, for instance, that are totally inappropriate when you are competing in the commercial world.

**Mr LLEWELLYN** - To the best of our ability we will provide that information.

**CHAIR** - We are happy with this at this stage.

**Mr HARRISS** - I note from your Stewardship Report, and we are still on that same page 22, Bob, that I think you made it very clear that the costs which you have identified there of \$5 million-odd are not separately funded, unlike other jurisdictions. Other jurisdictions have them funded from elsewhere. They are some of the judgments that would need to be made. It would seem to me that if those matters were extracted from your reporting and therefore from your obligations, that would add to your bottom line. In the end, that then delivers a dividend that the Government will require as the owner of the business. So it is just a circular argument, isn't it?

**Mr LLEWELLYN** - Well, 50 per cent, usually the dividend -

**Mr HARRISS** - Unless you smack them for a special dividend as you have other companies in the past?

**Mr GORDON** - If you go to the efficiency argument, if someone else were then required to provide those services, and I gave you the firefighting example, then it might cost you three or four times as much as it is costing here. We have been trying to be efficient. If you are an on-the-ground firefighter and you turn up at a fire, it does not matter to you whether it is an FT truck or a pump or a system or it is a Parks one, they are all exactly the same. It is the most efficient and effective way to do it. If you said to FT, we do not require you to have 300 firefighters and a couple of hundred firefighting appliances; the Government will fund it, you are not going to get away with \$700 000 or \$800 000, you are probably talking about \$5 million or \$6 million to do it. The same with the roads. Is it more efficient when you go to Hartz Mountains National Park for Forestry Tasmania to keep the 42 kilometres of State forest road, paid for by timber extraction, to keep the national park open or will you say, no, we do not have to provide that service, put a gate up and let someone else provide the road.

The theory of what you said is right. The next step is what is the most efficient way to fund those services. It is a bit like managing the areas we do not use for wood production. Our costs of doing that would be considerably less than anyone else's because they are interspersed with the forests that we are managing for timber production. I don't have recent figures for the costs per hectare of managing national parks. I think they get \$20 million-odd a year from the taxpayers. No profit is made. Divide by the area and that is the subsidy to manage those areas of land per hectare. What does it cost the State to manage 700 000 hectares of non-wood production forests that FT manages? Nothing. What would be the most effective way to do it? That is what we are doing with the Auditor-General. What are our costs of production for those areas; what is a

reasonable cost for someone else? At the end of the day you want to try to get the maximum amount of output for the dollar you are spending. That is what we are trying to do but to do that there needs to be some more information which we are working with the Auditor-General to get so that that is all transparent. As Hans said, it is never going to be black and white, it is always going to be grey edges.

**Mr WILKINSON** - But you can be smacked for not paying your dividend. All this has not been taken into account, that is what I was getting at from the start -

**Mr GORDON** - Correct.

**Mr WILKINSON** - and I think it should be taken into account for people to then make a fair appraisal.

**Mr LLEWELLYN** - It depends on what you mean by 'smacked'. The Government or the shareholder ministers might say to Forestry Tasmania that they have not done a very good job this year and that they will have to pull their socks up but we do not send a bill for the debt or whatever -

**Ms FORREST** - You have a dollar term attached to that though, that is what we are trying to get at here.

**Mr LLEWELLYN** - Yes, I know, but I think what you were talking about, Mr Wilkinson, is that others in the community -

**Mr WILKINSON** - That is right.

**Mr LLEWELLYN** - actually smack Forestry Tasmania and it gives them a perception in the community then that is turned around against Forestry Tasmania because allegedly they do not make a profit when indeed they do and do a wonderful job in managing our forests.

**Dr DRIELSMA** - I think you need to look at the benchmark against which you make a judgment that it is not making adequate profits and you mentioned a couple of times comparative to the investment. In fact it is not the investment, it is simply an accounting valuation of a forest asset that has been done in a certain way according to the standards. You have to look at what is the alternative use of that asset. If you or we were free to sell that asset onto the free market then you would say it has a market value and therefore there is an investment that we are putting a return on but in terms of our native forests clearly that is not the case. The alternative use of that asset would be as a reserve or a national park and so you have to really value the outputs that we produce from the management of that asset compared to what its next best use would be, which is not being managed as a private property because that would not be consistent with the purpose of native State forests.

**Mr GORDON** - Even some of our stuff that we call research is a body of knowledge that is required for a whole lot of conservation purposes. For instance, we know in general the location of every eagle nest in State forests and that is not the same for other landowners. The national park system has only a vague idea about where their eagle nests are and most private property owners, depending on who the private property owner is, may or may not tell anyone that they have an eagle's nest. So if you are trying to do genuine, science-based consultation research, some of the information that we collect is the only real, comprehensive objective information we

have. It's the same with the swift parrot; we have only a very, very small proportion of the swift parrot habitat but most of the information about the swift parrot comes from State forests.

**Mr LLEWELLYN** - Twelve per cent.

**Mr GORDON** - Twelve per cent of the habitat of the swift parrot is in State forests; all the rest is in national parks reserves and most of it is on private land, including most of suburban Hobart, but the information about the swift parrot comes from us. Therefore we are the ones that are targeted about the swift parrot when really the issue is about conservation on private property and the parks.

**Ms FORREST** - Is it possible to get a breakdown of your staffing arrangements and where your staff are located? How many are in forestry management, how many are in your public relations area, your tourism operations and all that of the FTEs as well as numbers?

[10.00 a.m.]

**Mr LLEWELLYN** - Yes, we can tell you that. Forestry Tasmania operates in a commercial environment and maintains staff numbers at an appropriate level to allow the business to remain competitive. As at 25 November 2009, Forestry Tasmania full-time equivalent staff numbered 474.4. Over the next two to three years staff numbers may be reduced in accordance with the business and operational needs. Since June 2009, FTEs have been reduced by 8.4. Staff numbers will be reduced mainly through natural attrition and transition to retirement. These measures will ensure that the corporate knowledge is maintained across the business. The reduction in staffing numbers is due to a change in skills requirement within the business and the operating environment in the industry.

**Ms FORREST** - Do you have a breakdown of where they work?

**Mr LLEWELLYN** - I do not have that, I am sorry.

**Mr GORDON** - The tourism numbers, in particular, change seasonally quite a bit. Many of our tourist employees are seasonal and that can vary easily by more than 100 per cent, and even some of the operational ones move around a bit, too. For example, we often have field staff who might be working outside their normal area of responsibility.

**Ms FORREST** - Do you have the figures, say, at the end of the financial year of who was where and in what area?

**Mr GORDON** - Yes.

**Ms FORREST** - Can you provide that to the committee, please, Minister?

**Mr GORDON** - We certainly have it. We do our workers comp and OH&S stuff by functional areas. If you want it roughly, there are about 70 people in the Huon, about 60 or 70 in Mersey, Bass, Murchison and Derwent has about the same. The districts are about the same size and there are around 150 in head office, of which most are in research or management.

**Ms FORREST** - Could you provide that breakdown, and public relations areas and that sort of thing as well? Your staff breakdown as well.

**Mr GORDON** - I think she is sitting at the back of the room - there is only one person.

**CHAIR** - If we go back over the last four financial years in terms of operating profit, we have gone from \$1.6 million in 2005-06 up to \$9.256 million this year. Can you advise why no dividend is being paid and at what level of operating profit then would it not? When would a dividend be paid, at what level of operating profit? When in the future is this likely to be reached?

**Mr LLEWELLYN** - I cannot give you a specific answer to that. It is an issue that the shareholders consider and discuss with Treasury with each of our corporations or government business enterprises. If there is a need, as I think there will be in this new year, 2009-10, to tighten our belts a bit, because of the softening demand for our wood products - those sorts of arguments are put and decisions are made about dividend levels based on those sorts of things. But again, I will ask Bob to make some comments about that.

**Mr GORDON** - Part of the calculation of the dividend payment is based partly on how that profit was made up. Some of the revenue streams we get are effectively joint venture arrangements. For example, in some of our joint venture plantations, our contribution is the land, so we don't put cash in, other people put in the cash and so the timing of the dividends needs to be when the revenue comes on stream. We are in negotiation with Treasury about a future formula for dividend payments but we have not reached a conclusion.

**CHAIR** - In regard to this current financial year, the market is still soft, I would assume?

**Mr GORDON** - Correct.

**CHAIR** - Demand is still soft and of course we have had an increase in dollar value in terms of our rates of exchange, so in regard to an expected result are you game enough to predict an expected result this coming financial year?

**Mr KLOEDEN** - Most commercial organisations with the challenges of the global financial crisis find it very difficult to project. Most companies are not making projections. What we can see ahead is a very difficult time and the difficulties are continuing. This is a month-by-month proposition. Decline in demand is likely to continue well into calendar 2010 which is for much of the financial year so it is too difficult to make a precise prediction.

**CHAIR** - Hypothetically would you expect a similar result to this financial year that you have just reported on?

**Mr KLOEDEN** - Similar to. I think that the expectations would be less than what we have just reported, bearing in mind that the result that we have just reported had one half year of quite strong demand and the severe decline came in the second half. The decline is continuing so it is very difficult to see it being anything like that.

**Mr WILKINSON** - Sales were 25 per cent lower in the second half than in the first half -

**Mr KLOEDEN** - Yes.

**Mr WILKINSON** - resulting in the majority of the 2008-09 profit being derived from the first six months so it would seem to me that if the sales are going to be the same, or worse as you describe, if you were back before us this time next year it would not be a very good picture.

**Mr KLOEDEN** - It would reflect the market circumstances. We have laid out the market circumstances as we know them to be so far and also some idea of what lies ahead. It's very challenging for all the industry by the way, and it is well reported.

**Mr GORDON** - Part of the challenge is quite mixed signals. Different sawmill customers are getting different market messages. Some of the Federal Government stimulus package on school buildings and things has been disrupted. A couple of tenders that went out have said that a certain certification was needed in order for the timber to be able to be supplied to the building, which means that it had to come from overseas, so some of that introduction of the stimulus package has been a little delayed, unfortunately. But certainly some of our customers are getting orders for that sort of demand now and they are showing better demand.

**Mr WILKINSON** - Did I hear you right, that the timber had to come from overseas in relation to the stimulus package?

**Mr GORDON** - There was a body called the Green Building Council which decided that it wanted to introduce - sorry, Minister, did you want to answer this one because you were involved in the resolution of the problem?

**Mr LLEWELLYN** - The Green Business Council, I think yesterday, made a statement and a policy change which to some extent resolved the issue. It was mandating at one stage that any timber products that are being used in the Federal Government's stimulus package in Education for other buildings and so on need to be certified under what is called the Forest Stewardship Council certification process. In Australia we have relied on a stewardship arrangement through the Australian Forestry Standard - AFS -

**Dr DRIELSMA** - Which is an Australian standard.

**Mr LLEWELLYN** - which is an Australian standard which is also linked into an international standard and is considered around the rest of the world as being effectively equivalent to the Forest Stewardship Council standard - FSC standard. However, here in Australia people within FSC have different views and they have used their influence to put more exacting requirements on controlled woods status under the certification arrangement.

We have been back to the Green Building Council and the Green Building Council have now agreed that the Australian Forest Standard is appropriate, just as appropriate as the FSC standard, so they are not putting that obligation on material. Obviously that has opened the market for properly certified and properly managed and controlled wood from Australia, Tasmania, or wherever, using the AFS standard.

**Mr WILKINSON** - The stimulus package has gone, hasn't it now, or is it still -

**Mr GORDON** - It is still going. The State Government agreed to pull three tenders for the Education Department buildings because of its quite anti-competitive condition that the so-called Green Building Council put on. The PFC standard has twice as much forest certified internationally as FSC; PFC is seen as the developed world certification standard, and FSC is

mostly in the under-developed world - tropical countries with much lower standards of forest management. I think there is only one Australian company that has both, and their chief executive told me that the AFS standard is a much higher standard and a much more difficult standard to meet than FSC, but unfortunately this monopoly private company, the Green Building Council, tried to impose its own views and set up its own standards in conflict to the Australian standards. Fortunately Minister Burke and Minister Llewellyn intervened and all of the primary industry ministers applied some pressure to get it sorted out. But it did certainly hold up some of the tender processes for buildings in Tasmania.

**Mr LLEWELLYN** - The Primary Industry Ministerial Council made a decision at its last meeting that the AFS and FSC standards were equivalent and should not be differentiated, and that is the national Government, all-State position on those two certification systems.

**Mr HARRISS** - But on that issue, though, didn't Bob just say FSC is a lower standard - AFS is much higher -

**Mr GORDON** - There is an Australian standard for the Australian Forestry Centre, there isn't one for FSC. FSC has a series of international rules which are variable in different countries. For example, when we were interviewing South African foresters for some jobs in Tassie, one of them told me they had FSC certification for some of their wood, and I said it is from land that has been cleared of native vegetation for the establishment of exotic plantations which would not allow it to get AFS/PFC. They said they were told just to have a separate company to do the land clearing and then they could plant it and it would not be a problem. So there is a series of inconsistencies in the way FSC appears. They actually have a very good web site, FSC-Watch. If you Google that web site, you will find a series of articles by people who were employed by FSC or other certifiers, pointing out the inconsistencies and problems with some of the FSC stuff.

I would personally prefer to have both; I would prefer to have a market for certification and the market decide and have it independently done. At the moment it is proving very difficult given that some of the groups involved in FSC Australia appear to be anti-forestry rather than pro-sustainable management.

**Mr HARRISS** - That was going to be the extended question. My understanding was that the FSC in fact has its Australian franchise, and in my travels to North America some years ago I understood a bit about the FSC and the difficulties which it posed for forest product suppliers. But if we have a franchise of the FSC in Australia and it is not even properly connected to the international network, if you like; if that is an accurate summation of what is going on -

**Mr LLEWELLYN** - I think it is, yes.

**Mr HARRISS** - does it not place Forestry Tasmania and other forest product suppliers in this nation at a disadvantage when trying to deal on an international market?

[10.15 a.m.]

**Mr GORDON** - Except to the extent that two-thirds of the certified forests in the world are PFC rather than FSC certified. I do not have a problem with continuous improvement, and for nearly three years now I have been calling for some genuine discussions with some of the voluntary conservation groups or the corporate conservation groups like the Wilderness Society about how we get a better engagement about some of these issues. Our starting point was: how do we stop the illegal protests that are causing harm, health and safety risks to police officers, to our

staff and contractors, and to the protesters themselves? We will keep calling for that and keep trying to engage. Some groups have spoken to us, I have had a couple of informal discussions, but there seems to be, for whatever reason, reluctance for some elements of the Wilderness Society to engage in this debate. I think it is disappointing and I think some of that has flowed over to this certification debate, where conditions are being imposed or proposed to be imposed in Tasmania which are not imposed anywhere else in the world and Tasmania, in my view, has some of the highest standards of forest management in the world. Every time we get independent experts in they say that and it would be very disappointing if we could not get any certification system we want as long as we went through the right, fair and independent process on it.

**Ms FORREST** - Who is imposing those conditions?

**Mr GORDON** - In the FSC there are a couple of chapters, one of which has the Wilderness Society in it, and they appear to be saying that even though in Europe, for instance, just about all the wood comes from native forests, so all the wood going into the pulp mills and so on comes from native forests in Europe. There are very limited plantations, basically some Tasmanian blue gum in Portugal and Spain and all the rest is managed native forest - all of Russia, Scandinavia - but for some reason in Tasmania it must only come from plantations.

**Ms FORREST** - Can I just pursue that a little bit? With regard to the potential interests of Södra in the pulp mill, was it one of their requirements that there be an FSC certification?

**Mr GORDON** - I do not know. I have only seen the Wilderness Society media statements. I think in Europe the vast majority of wood that would go into the Södra pulp mill or any other pulp mill would be from native forest and it would be PFC certified.

**Ms FORREST** - When you have such inconsistencies internationally, though, any potential partner there, whether it is Södra or anybody else, with this total lack of consistency I do not know how you would get around that.

**Mr GORDON** - There is a fair bit of consistency in PFC. There are standards that must be met. If you wanted to describe the two standards colloquially, you would probably say PFC is the science-based one and FSC is the more political or community-based standard. So, with a science-based one, by definition, you have a series of predictable objective hurdles that you must meet but with the social or political one you effectively have to negotiate with whatever the local green group is.

In China or Indonesia that is a different matter, where they do not have a body like the Wilderness Society that raises \$12 million a year and employs 370 staff, they are actually a big corporation, and you do not have that in many of the underdeveloped countries. You have a series of local community groups, for example -

**Ms FORREST** - And that is why you get the inconsistency, or one of the reasons.

**Mr GORDON** - I am calling it and they would probably call it standards that reflect the community values in different areas.

**Dr DRIELSMA** - There is very little inconsistency in the standards, it is inconsistency in the way that they are promoted and applied by the supporting groups. As Bob says, PFC has 35 member nations and it is imbedded in a more scientific and fundamentally in the national and

international standard setting processes, so it meets all of those - just like Standards Australia - all of our other standards. The PFC standards, the Australian Forestry standards are all embedded in that process and so there is actually quite a lot of consistency in that process, but FSC does not come from that sort of tradition.

**Mr LLEWELLYN** - I think it is fair to say from a government policy point of view; I have certainly been concerned about this matter now for some time. We have taken some action to try to address it and I will give an example of what has happened with the Green Building Council and that matter now is almost resolved. It is resolved in the fundamental aspects. There are still some aspects of their statement that I think need to be perhaps looked at again. But it is certainly the Government's desire that we are able to translate that the international standards that are there within the PFC-AFS certification system, and indeed how FSC is perceived on an international level by other countries, into Australia and to address the issue of inconsistency that is being displayed by the FSC arrangements here in Australia to the extent that it is really, in my words only, an anti-forestry mechanism that is being applied by the people who are controlling the FSC process.

**CHAIR** - If I might, we still have quite a raft of issues to get through and I wanted to focus on a couple of other financial matters and I think the Auditor-General did allude to the fact that your current revenues are not covering your costs and also that you have reached the limit of your borrowings - FT have reached the limit of their borrowing - so the question is, how are you going to manage that in the future?

**Mr LLEWELLYN** - Again, I will refer that to the Chairman and Managing Director, but I have to say, in the answer I gave a moment ago perhaps I should have included that aspect from a cash flow and other points of view in your reference to the fact that Forestry Tasmania was not required to pay a dividend in this year. So those sorts of considerations need to be taken by Government and the \$9.3 million carried over in order to address some of that aspect.

**Mr GORDON** - If I can go back a couple of steps first, Mr Chairman, it might help put some of these things into context. Since about 1988 there have been a series of Federal and State Government decisions that have removed productive areas from State forests and put them into the reserve system, and that is a community decision. The effect of that has been to substantially reduce the area of forests available for sustainable wood production. In compensation for removing those areas from productive forests into conservation forest, a series of government compensation plans have been put in place and the general thrust of those has been to provide us with money to put plantations in the ground to replace the volume of timber that would have been produced from the areas that are now in the national park system.

**CHAIR** - Yes, but you are not replacing native forest with plantation, as I understand it now, is that correct?

**Mr GORDON** - Correct. We are no longer converting areas carrying native forest vegetation to plantations and the areas that were planted with the moneys that came out of Federal Cabinet overruling the Helsham Royal Commission and out of the RFA and TCFA grants have been spent on putting plantation trees in the ground, pruning and thinning those plantations with silviculture that we pioneered and developed to grow timber suitable for solid wood processing, whether it is sawmilling or rotary veneering.

The problem we have is that, with the best will in the world, planting those trees takes 20 to 25 years before they get big enough to replace the trees that were taken out over the last 15 years. So the problem we have is that we can see, and we can go and measure the plantations that are growing these nice, pruned, fat trees; we do not actually get the revenue from them for quite a few years yet, but we have had to manage the smaller forest area in a way that was not originally intended.

There are still very good roads in the national park system if they have not been pulled up, where money was spent to access areas that were to be the next couple of years' logging. So until the plantations come on stream, we still have to be neither fish nor fowl, that is managing the State forests - I think it was from *The Tempest* -

**Mr WILKINSON** - He has created a monster, whatever it is.

*Laughter.*

**Mr GORDON** - I will have to look it up when I get home.

**Ms FORREST** - There is another analogy we could use.

*Laughter.*

**CHAIR** - It is quite legitimate.

**Mr GORDON** - So we have to manage the areas of native forest on a sustainable basis. But at the same time, we have had to spend the money on the R&D on developing what is really a different silviculture from most of the rest of the world because in most of the rest of the world they grow plantation wood just for pulpwood. Here, if you look at our plantations, they are pruned to 6 metres; there are only 300 trees per hectare, not 1 000. All of that has cost us a lot of money. It was a community-government decision that that was the direction that society wanted to go in and so we are implementing that. It has had significant impacts on FT's cash flow and ability to provide short-term cash. We have lost some of the flexibility about how we can manage our native forests.

**CHAIR** - I understand that. So is that limit of borrowing a concern to the -

**Mr GORDON** - We are not quite at our limit of borrowing. We had borrowing approved for \$4.8 million, which we have not taken up, and on the last review by Tascorp I think they commented that we had the capacity to borrow up to \$70 million. We are not intending to take any of that up. We have been working very hard on our costs side. For example, you have probably noticed Forestry Tasmania has changed all its telephone numbers in the last month or two. The reason for that is that we do not have telephones any more; we have gone to all voice over Internet protocol. It saves a fortune, has more functionality - it saves us quite a bit of money per year in terms of money we would have spent on telephone companies. Instead it all goes through our computer network. We no longer have F-plated vehicles. They were treated as signature plates, so we no longer have those plates and that saves us about \$60 000 to \$70 000 a year. We are going through a whole lot of efficiency and cost-saving measures to reduce our costs. We are also part of the forestry technical services thrust. We signed a contract for \$600 000 in China to provide technical services on plantation establishment and I think we have another one in the wings. We have put a bid in to fly an African country with our new Lidar

technology, where we can do topographic and tree inventory data. We are doing a whole lot of things that will increase our non-Tasmanian tree revenue streams, so it will give us a different market and at the same time decrease our costs. We have to do all those things because at the moment our traditional markets are pretty tough.

**Ms FORREST** - I have been informed by another member that in the north-east it is not uncommon for Forestry vehicles to be travelling almost a minute apart with one person in each vehicle. We are looking at cost savings, as well as carbon emissions and the whole bit, is that something that will be considered? It has been raised in the past, I understand.

**Mr GORDON** - I am sure there are lots of examples of that sort of thing. Without a particular example -

**Ms FORREST** - That is a particular example this morning on the road.

**Mr GORDON** - But where were they both going?

**Ms FORREST** - There were about six or eight in a row.

**Mr GORDON** - But were they all going to different places?

**Ms FORREST** - They were all going in the same direction at the time.

**Mr GORDON** - Okay. In the north-east if you go down the Tasman Highway you could end up at Mathinna or Goulds Country. I am sure I could give similar examples about the operations of Parliament and a whole range of other things, so you will just have to accept my assurances that we are acting as efficiently as we can. We have reduced our vehicle fleet. We have changed over our vehicle purchasing policy so that all our vehicles meet substantially reduced fuel consumption. Despite me being the butt of many jokes for driving a Volvo, it is a very fuel-efficient diesel vehicle. We are gradually changing over our light tanker and field fleet to much more efficient diesel vehicles. We have gone to the Subaru Foresters which, again, have very low fuel consumption compared to the previous ones. We are doing all those things. But there will always be anecdotal examples of where people think we can improve.

**Ms FORREST** - Can I go to the point you were chasing a minute ago or do you want to have a break?

**CHAIR** - I think we will have a five-minute break.

**The committee suspended from 10.30 a.m. to 10.44 a.m.**

**CHAIR** - We will resume the hearing. I think, Ruth, you had a question.

**Ms FORREST** - Yes. In the Auditor-General's comments he said that given Forestry's cash balance at 30 June 2009 was \$37.043 million, the TCFA funding represented the entire cash balance at year end. He also makes the comment that \$2.96 million is the estimate of funds drawn by Forestry from TCFA moneys to meet other day-to-day operating costs as opposed to the costs required under the TCFA. Management are aware that the money withdrawn as at 30 June 2009

needs to be replaced and expended on TCFA specified activities to regularly manage the overall cash position of the organisation on that basis.

In the absence of those funds, because they have been spent on operational costs, are you feeling confident about the capacity to meet those requirements and have cash available to do the TCFA required expenditure, and also meet your other commitments?

**Mr GORDON** - As I said before, the TCFA money was effectively in compensation for large areas of forest that went out of production. At the time the TCFA was signed there was an expectation that we would continue to be able to convert native forest to plantations. When that decision was made to stop back at the end of 2006, start of 2007, we could no longer spend most of that money on what we thought we would spend it on, which was putting new plantations in the ground on  $x$  native forest sites.

You will probably see - I think we have some here if people have not seen it - our Trees on Farms program, which was a result of not being able to convert native forest to plantation anymore. We have developed this program of planting trees on farms either as environmental remediation to get rid of gorse by planting trees over the top of them, or some new silviculture we are looking at, which is really wide space plantations that will grow sawlog much quicker. You have probably seen a couple of examples on the way up the Midland Highway at Kempton where Peter Downie has some pines planted on those hills that people said would never grow trees. He has planted maybe up to 15 per cent of the farm and his agricultural production has gone up because it has provided things like shelter and less wind. It has taken us a couple of years from when that decision was made not to continue to convert native forest to get that program up and running.

Part of the delay in achieving some of the TCFA program - do you have some there? - has been about developing -

**Mr LLEWELLYN** - I haven't got one like you have.

**Mr GORDON** - Do you want a glossy one? Right. Does anyone else feel left out because they haven't got a glossy one?

*Laughter.*

**Mr GORDON** - Part of what we have been doing is rejigging that program. We have also looked at much more intensive pruning and thinning regimes, given the purpose of the money was to allow us to replace the wood that is now in reserves. The major thing that is hard to replace is the sawlogs, so again we are relooking at some of our regimes to make them even more sawlog-intensive than they currently are. To do that we cannot just go from no more conversion of native forests to the new regimes on the first day, so it has taken us a couple of years to get that stuff right.

**Ms FORREST** - As far as managing cash flow is concerned, that's the issue I am more interested in. I hear what you are saying about those other -

**Mr GORDON** - In terms of cash flow, I am very confident we will get the TCFA program done, some of it has had to be delayed because we could not get - it was easy to spend the money on plantations on cleared native forest sites. That became no longer available to us in 2007 and it

has taken us a while to wind it up. The Auditor-General is right in that cash flow is tight and it continues to be tight. I cannot remember whether he also said in that that if you squared up at 30 June our debtors and creditors, we actually have a positive cash balance. That is, some of our customers had not paid us and we had not paid some of our creditors.

**Mr WILKINSON** - With the TCFA, if I can take on from Ruth's point, how much TCFA funding is still outstanding, and when will it be received? When will the remainder of the TCFA funding be fully expended?

**Mr GORDON** - We only have them roughly but we can get you the detail. They are in an annual report that we give to Treasury.

**Dr DRIELSMA** - I think, as Ms Forrest indicated, the balance was about \$30 million -

**Ms FORREST** - It was \$37 million.

**Dr DRIELSMA** - and I think there is still in the order of \$15 million to \$20 million for us to draw down from State sources and that would fulfil the overall commitment of the TCFA. A lot of that funding will be both to complete the plantation program that is under way that Bob has indicated and also for the pruning and fertilising of stands that have been established. The TCFA provided a certain amount per hectare. We draw that down when we establish plantations but then it is expended over a period of up to eight years for the pruning and fertilising programs that then ensue, so that funding has to cover that.

**CHAIR** - There has always been a constant perennial complaint or claim - and you have four major customers, as I understand, Gunns are the biggest one at 56 per cent, Artec, Ta Ann and Norske Skog - that you do sell timber to them at concessional rates. I would like a response in that regard, please.

**Mr GORDON** - I know the claim has been made but not really from any credible sources. Again, there has been a whole-of-benchmarking done and if you look at our prices for hardwood pulpwood on stump they are considerably higher than most other places in Australia. The plantation resource - again, under the new two-year-old wood supply agreement with Gunns for the pulp mill we get paid substantially higher prices than we previously got paid and a lot of the current challenges the industry is currently facing would not have existed if the pulp mill had been built and was now operating, which if it was anywhere else in the world it would have been. I looked at a mill in Uruguay that started its planning approval process over 12 months after Gunns started theirs and the mill has been operating for a year and their plantation owners there are getting better prices as a result than they were from export chips.

**CHAIR** - That is all plantation based.

**Mr GORDON** - It is. It is Australian eucalypt plantation based and again there have been other mills. Other than South America most of the pulp mills in the world operate on native forest wood - the north American mills, the European mills, except for the ones in Portugal and Spain that use Tasmanian blue gum, the vast majority of those mills use native forest wood endorsed under a certification system, either PFC or FSC. This sudden focus on plantations being something more environmentally desirable I think is misplaced.

**CHAIR** - Getting back to the original question -

**Dr DRIELSMA** - If I could interrupt you, Mr Chairman, when we negotiated the contract with Gunns for the supply of pulpwood, which is only two or three years old, we did take some independent advice at that time which canvassed both domestic and international prices. We came to the view from that advice that the rates that we had settled on were not at the top of the range but were certainly above the medium. We were well in the range that one would expect so there was no indication that the rates that we had arrived at were in any way a discount.

**CHAIR** - So you would categorically debunk the argument put forward, say, by the Wilderness Society and others that we are selling off our timber too cheaply and subsidising the Gunns of this world?

**Mr GORDON** - The only arguable case would be our high-quality native forest hardwood and sawlogs and part of the challenge with that is that the processing industry is going through a substantial restructure because if you go back 15 years, most of its wood was from large mature trees; 79 per cent of the old growth is now in reserves. Many of those areas have been roaded ready for harvest so the processing industry is going through a difficult time converting both its markets and its processing technology from large old logs to smaller regrowth logs, which have different technical capacities to process them. If you look at the ITC mill at Huon, which I think most of you would have seen, all the work that Britton's have done rebuilding their mill, it is all about changing the processing technology and the marketing mix because you get narrower, smaller pieces of timber from smaller trees.

There is probably an argument that we may be able to get more for some of our large high quality sawlogs. I do not think that there is an arguable case on the pulp but I think that we are well above the average on pulp wood prices.

**CHAIR** - What is the sort of longevity of some of those contracts with Gunns, for example?

**Mr GORDON**- For pulp or for sawlogs?

**CHAIR** - Both.

**Mr GORDON** - Most of our sawlogs contracts are for 10 years and most of them are in the middle of being renegotiated. They come up some time between the middle of next year and the middle of 2012. Our pulpwood contracts range in length depending on the level of investment that is required so the contract to supply non-old growth material to the pulp mill is for 20 years of which 18 is left. The one to supply wood to Gunns other than for the pulp mill is 10 of which eight is left.

Ones to other pulp log purchasers, the one to Norske Skog was for 20 years but last month they ceased the contract because they have changed their processing technology. We did have one with Australian Paper but again they have not renewed it because of uncertainties about those mills. For the rest, some are just short-term ones, some of the plantation pulp wood ones are basically spot, depending on what we get thrown up in our normal harvesting activities.

**Mr WILKINSON** - We were talking about the markets within the State, but what about outside the State, the international markets? What is the outlook for Forestry Tasmania's international markets in the year ahead and years ahead, especially considering Japan is in a real

downturn and that is probably one of the reasons the figures of Forestry Tasmania are not as good as they otherwise would be?

**Mr LLEWELLYN** - Again, I think I mentioned that at the beginning of the hearing. The international market is very soft at the moment, soft for Forestry Tasmania and also soft for other major players like Gunns. We can only try to work our way through this soft period. There has been some effort, and from my own point of view, to seek some improved outcomes from some of our Japanese customers particularly. I was intending to travel to Japan later this month but I think that it will probably be early in the new year to talk to our major customers over there about the situation. We need to sell some more products if we possibly can to get us through this soft period that we are in at the moment.

**Mr WILKINSON** - How much of an impact is the relatively high Australian dollar having as well?

[11.00 a.m.]

**Mr LLEWELLYN** - It is having a considerable impact. It is one of the major impacts. I do not see in the immediate future any change to that, not that I am an economist, but it would seem to me that before we see a different level of dollar here in Australia against the US dollar we need to see a recovery from the global financial crisis in America emerging, and that is, to my mind, a little slower than it is in other parts of the world. But anyway, other people could probably comment more about that than I.

**Mr WILKINSON** - With Japan down quite markedly, so too the figures not as high as they otherwise would be, obviously you would be waiting for the market to have a spike again or to be on the way up, but there have to be other plans, I would suggest, in place to cope with the downturn in international markets.

**Mr LLEWELLYN** - Yes, we have but, again, I think -

**Mr KLOEDEN** - We are not waiting. In fact, there is a great deal of activity. It was a year in two halves, strong demand in the second half. As markets show considerable softening and then deepening, Bob and the team have been very active seeking out other markets, some of which are known to us. Japan is not the only market there. It is the most satisfactory market for us but there are alternatives that Bob and his team are actively working on that I alluded to in the opening remarks and Bob can continue some of that discussion.

**Mr GORDON** - Traditionally, Japan has been by far the biggest market for hardwood woodchips in the world with 20 million-odd tonnes. The Japanese are also the world's highest-cost producers. If you look at a cost curve of manufactured costs of pulp with costs on this side and the countries on this side, all the Japanese mills are the highest-cost producers. It was traditionally a fairly protected industry and most of Japan's pulp goes into paper made in Japan and used in Japan. They export very little pulp and paper and traditionally they were interested in long-term secure contracts, which is the same behaviour they have displayed with coal and iron ore and all of their other resources.

When the rest of the world was recovering, the last 10 years, Japan does not seem to have really recovered much and the latest global downturn appears to have affected them more than anyone else. They did not have the luxury of being able to reduce their interest rates because they were already at almost nothing whereas Australia had the luxury of pulling its interest rates back

to stimulate the economy. For the first time some pulp and paper capacity in Japan was permanently closed. So it shut down some manufacturing, which is very unusual for Japan. But their economy is still struggling and it has had an effect on basically everyone.

Part of the challenge is that they have all this wood coming over the sea in ships towards Japan and when they suddenly have a crash there still might be several million tonnes of wood coming into Japan. If it is from South America it is 30 to 35 days' shipping time, so they have an immediate problem because they have no space to store it. That is what happened in December last year. When the crash happened, Japan just stopped buying wood and they did not buy anything for a while because they had all the wood still coming to them for a couple of months' worth.

Because they own all the woodchip carriers and they have to pay for them whether they use them or not, they send them to the furthest away ports. Why do they do that? Because if you want a million tonnes of wood in a month, if you send it to South America you get half as much wood as if you get it from Tasmania because it is half the shipping time. So the one boat carries half as much wood if they send it to South America. They have to pay for the boat anyway. Their real cost of wood is higher but they had to pay for the boat. That has happened, so demand has picked up in South America, which happens to be the most expensive wood but it still has not really picked up as much as it should.

In an overall economic sense and in terms of the Tasmanian share, on top of that there has been a concerted campaign by some anti-forestry groups to try to stop the Japanese buying wood from certified sustainable forests.

**Mr WILKINSON** - Has that worked?

**Mr KLOEDEN** - That has had some impact.

**Mr WILKINSON** - How big has the impact been?

**Mr KLOEDEN** - I do not think there is any argument about the science or the forestry of it. When you talk to the Japanese, I think they will say that Tasmania's forest management standards are equal or better than anywhere else in the world. If you are a buyer of paper and a group comes and sits in your office and protests day after day and they say they are going to do boycotts and all those sorts of things, and the market turns down, what is the easiest thing for you to do? Just give in? I think there has been a little bit of that, which is unfortunate.

We also think that some of the activities of some of those groups, if it happened in Australia, would be criminal activity. I think the Rain Forest Action Network put out a brochure about Tasmanian forests and one of the classics was a full-page picture that said, 'This is what happens to forestry in Tasmania'. It was a picture of the mudflats on the King River.

*Laughter.*

**Ms FORREST** - The wrong industry.

**Mr GORDON** - For those of you who do not know the west coast, it is where all the silt comes down from the mines before they had tailing plans and there is a huge delta of mudflats.

**Dr DRIELSMA** - It happened to have a few stumps.

**Mr GORDON** - And a few stumps because all the trees got killed and they claimed that that was forestry activities in Tasmania.

So there have been a whole lot of those quite ridiculous dishonest campaigns going on.

**CHAIR** - So have you committed any resources to try to negate some of those claims?

**Mr GORDON** - I think one of the challenges, Mr Chairman, is that some of these groups are so much better-funded than we will ever be. The Wilderness Society has well over 250 full-time employees and they only have one focus whereas we have lots of things we have to do. Because they haven't really targeted the pulp and paper manufacturers, they have targeted people who buy things from them or people who buy things from those people. Sometimes it takes you a while to find out about it and, when you look at the claims, you think, 'No reasonable person could believe this', but if you have no context - you know, the mudflats at King River do look pretty dreadful.

**Ms FORREST** - Particularly when you didn't get the background in the picture.

**Mr GORDON** - They are pretty good at taking photos and it is the usual sort of campaign: 'Trees don't grow back after clear-fall burning'. Everyone knows it is not true but it continues to be said.

**Mr WILKINSON** - So what are the markets?

**Mr GORDON** - China.

**Mr WILKINSON** - China is a big one.

**Mr GORDON** - China is increasingly investing in particularly pulp and paper manufacture. The economics of pulp manufacturing is normally you try to put the pulp mills where the wood is because the transport of wood is your biggest variable cost. You look around the world and Uruguay, Brazil have put the pulp mills right in the middle of the forest which, in our case, is basically Bell Bay, and you then put the paper machines where the population is, so a city like Shanghai with 30 million people - huge paper demand - they tend to try to put the paper machines there because transporting pulp costs less per unit of value to transport pulp than it does woodchips by quite a bit - 4 tonnes of woodchips for 1 tonne of pulp.

You normally have a paper machine - at least one - off the end of your pulp mill just to give you some market advantage because you can then go in and out of producing paper.

**Mr WILKINSON** - So we have China?

**Mr GORDON** - China. Again, if you look at the purchase of materials by China, what they tend to do is, when the price is low, buy huge quantities of inventory at low prices and when the prices go up they use their inventory. Fifty or 60 years of communism seems to have no impact at all on their capitalist behaviour. They are the prime example of a traded economy.

**Mr WILKINSON** - So China is one of the markets we are looking for?

**Mr GORDON** - There is a market in China.

**Mr WILKINSON** - Yes.

**Mr GORDON** - The temporary problems are that while the Japanese have woodchip boats they are turning away, the Chinese see an opportunity to buy wood really cheaply. So we have to wait until that temporary inventory goes away or normalises and then there is a market for high-quality Tasmanian chips that are used for high-quality printing and writing papers in those markets.

**Mr WILKINSON** - Any other countries?

**Mr GORDON** - If you look at world pulp and paper, there is a little bit in Taiwan. So to look for the market for Tasmanian hardwood woodchips you need to look for high quality in the printing and writing paper because that is what they are best for.

There are two companies in Taiwan, there is one company in South Korea, there are a couple of mills in Indonesia that have run out of wood on and off, but again they tend to pay fairly low prices. But if you look out a couple of years, it is highly likely that the demand for hardwood woodchips will outstrip the supply because most of Indonesia and Malaysia has been over-cut. The plantations that were supposed to be established to replace that resource either have not been planted in the volumes that they were supposed to be planted in, for various internal governance reasons, and they are generally not growing anywhere near as fast as they were predicted to grow. I am pretty confident that the long-term outlook, and even the medium-term outlook, is very strong.

**Mr WILKINSON** - What about India?

**Mr GORDON** - India, I think, has the second-largest area in the world of eucalypt plantations, after China. A lot of it is used for charcoal production and for domestic heating. They have a couple of pulp and paper mills, generally old technology. I think they have a rayon mill.

**Mr WILKINSON** - So there is no market there?

**Mr GORDON** - There is, but a lot of the mills are not on ports and the logistics are really difficult. The new pulp and paper mills in China and all the Japanese ones are on deepwater ports so you can deliver a 50 000-tonne Panamax chip carrier. In India the logistics are really difficult. There is probably a market for some higher-value products such as mine props and those sorts of things but for the pulp and paper sector it is pretty difficult.

**Dr DRIELSMA** - A lot of their pulp and paper traditionally has been based on non-wood fibre sources.

**Mr GORDON** - A lot of the higher-quality stuff such as the printing and writing materials they then put through a viscose pulp mill which makes rayon - that you make shirts out of, because they have a large textile industry there.

**CHAIR** - Could I go back to wood flow from FT to the Gunns of this world? If we made a presumption that the pulp mill is built and becomes plantation-based and Gunns then no longer requires native forest timber, what happens then? Would they cancel those contracts?

**Mr LLEWELLYN** - I do not think that is an appropriate assumption.

**Mr GORDON** - Hans will know the exact number, but it is something like 300 000-400 000 hectares of native forest that we have established - that is, it has been clear-fall, burn, sow, or higher altitude -

**CHAIR** - Yes, on an 80-100 year rotation, I understand that.

**Mr GORDON** - If there was ever a proposal that that wood should not be available for any processing plant, you would basically shut down the whole of Europe and the whole of North America. Again, we are going back to the certification issue to be consistent. If you look at Mr Harriss's electorate, the vast majority of the wood down there is created by Europeans. It has been actively managed since the tramways were in the Huon in the early 1800s. I do not think we should focus too much at the moment. Our contract with Gunns for the pulp mill excludes the old-growth coupes so, despite what a lot of the opponents to the pulp mill have said, it is already structured in a way that we are providing plantation and non-old-growth coupes to that mill. The most environmentally responsible mill would be one that uses that resource. It lowers your overall transport costs and the impact on the environment. I have seen the media speculation from the Wilderness Society and others saying that mills should not be based on native forest wood, but I think that is an environmentally-irresponsible attitude.

**Mr LLEWELLYN** - In any event a lot of the regenerated native forests are needed for ongoing other products, not only -

**CHAIR** - I realise that.

**Mr GORDON** - Like the Ta Ann mills at Smithton and Huon, like the regrowth sawmills.

**CHAIR** - If Sodra became a joint-venture partner with Gunns - I am not too sure what they do in Europe, whether they source most of their material from -

**Mr GORDON** - All the European pulp mills, except the two in Portugal and Spain, are from native forests. The problem is that people go there and see pine trees so they assume they are planted. When you go to Uruguay and see gum trees, you assume they are all planted. When you come here they are native in Europe - pines, spruce, birch, aspen and all that sort of stuff is all native forest. Plantation-fed processing plants are in parts of South America. The Portuguese and Spanish have planted up Tasmanian blue gum and feed most of their pulp mills on that. If you look at the rest of it, it is basically on a native forest resource and sustainably native forests. We do not use artificial chemicals. Most people that I take into a 50-60 year old clear-felled burn regeneration area never know that it has been logged until you show them the stumps.

[11.15 a.m.]

**CHAIR** - If the pulp mill were to be built, is there enough plantation feedstock in the ground at the moment to feed that in perpetuity, on a continuing replanting basis?

**Mr GORDON** - If you look at the wood flows over the next 20 to 30 years, Tasmania's total wood availability goes up by about another million and a bit tonnes. The breakdown is about 3.5 million plantation wood and about 2.5 of other. The challenge would be that you would need to cart that plantation wood from all around the State to Bell Bay. You would need to cart it from south of Hobart, from Woolnorth on the north-west, whereas if you feed it with a mixture of plantation and managed native forest wood you can substantially reduce the log truck task on the road. In my view, people proposing to feed a mill 100 per cent on plantations are actually doing something that is against environmental interests.

**CHAIR** - That becomes a little bit confusing because -

**Mr LLEWELLYN** - Nevertheless, the question that you asked is probably correct in the sense that there could be enough plantation forest to run the mill on plantation, but probably not for the next couple of years unless plantation timber was imported from somewhere else.

**CHAIR** - It just becomes a little bit confusing. The messages out there are a bit mixed and perhaps even what Gunns have put out themselves, that the proposed pulp mill will be essentially plantation based.

**Mr GORDON** - Plantation based is different from 100 per cent plantation.

**CHAIR** - A fine distinction.

**Mr HARRISS** - So is Gunns' intention not to -

**Mr GORDON** - I do not know.

**Mr HARRISS** - Along the way they have said that within five years 80-odd per cent would be plantation based. The higher yield is from plantation timber.

**Mr GORDON** - Plantation wood has a higher pulp yield per air-dried tonne but not necessarily a higher yield per green tonne. For instance, some of our regrowth native forests will have a lower specific consumption of wood to get to pulp than some of the plantation material because it is denser and it has more fibre and less water.

**Mr HARRISS** - I know that Ruth is wanting to get back into the financial stuff, but while we are on the matter of the wood supply agreements and the pulp outcome, your wood supply agreement with Gunns is for 1.5 million tonnes per year -

**Mr GORDON** - of wood from coupes, from non-old-growth coupes.

**Mr HARRISS** - and your further figures indicate that your maximum volume of plantation pulpwood would be about half a million of that?

**Mr GORDON** - It varies over time. To put it in context, our objective in growing plantations is not to grow pulpwood. So the more intensively we manage to grow sawlogs the less pulpwood we produce. Our intention is to grow solid wood for high value purposes that we can get \$100 bucks a tonnes for, not \$30 to \$40.

In a perverse way our plantation strategy is not planned around meeting the requirements of the pulp mill, it is planned around meeting the requirements of making available 300 000 cubic metres of high-quality wood, and to do that we need to manage differently from the pulp wood plantation silviculture regimes.

**Mr HARRISS** - If I could stay on that for a moment then, an extension of that would be recognition by Forestry Tasmania that part of that equation needs to take account of carbon sequestration -

**Mr GORDON** - Correct. So again, our solid wood regimes are sucking in carbon which will be permanently captured because it will be going into things like this table which, given part of it is Huon pine, it has also captured it for a long time. Our solid wood regimes are about producing veneers, solid timber, structural engineered products which capture the carbon for decades and decades.

**Mr LLEWELLYN** - This table, incidentally, is the Forests and Forest Industry Council table obtained during the Salamanca strategy and group back in 1989 and 1992 and seconded or purloined by the Parliament for their use.

**Mr GORDON** - So it is 20 years old.

**Mr HARRISS** - Just to finish that area, Mr Chairman, because I think it is important to go back to the matters of reasonable -

**Mr LLEWELLYN** - You did not like that comment?

**Mr HARRISS** - No, it was a good table but essentially who cares?

*Laughter.*

**Mr HARRISS** - The matter is whether Forestry Tasmania, as part of its carbon capture recognition, is claiming their wood products as part of that carbon capture. Am I right in suggesting that the Kyoto Protocol does not recognise harvested timber as part of that equation?

**Mr GORDON** - Correct. The Kyoto Protocol was not really about the science of carbon capture; it was about the politics of getting an agreement about doing some things so there is no scientific doubt that this should count as permanently captured carbon. Minister Burke and Minister Wong have both publicly committed that their position going into Copenhagen will be to argue for harvested wood products that are permanently capturing carbon be part of any future emissions trading scheme and currently it is not. There are a whole lot of other perverse things in Kyoto that should count for carbon capture and do not but if you look at the trade in carbon in the market place the vast majority of the trade is non-Kyoto compliant so just about all that stuff - you get the little box you tick when you get your fare ticket, 'Would you like to buy carbon?' I doubt any of that is Kyoto compliant. The vast majority of international trade is about things that genuinely capture carbon but are not currently recognised in the Kyoto Protocol. It is a very small proportion and it is a bit like the proposed carbon pollution reduction scheme, it does not count things which are Kyoto compliant so plantations established on cleared agricultural land post-1990 do not count in the CPRS until 2010. Why? I do not know.

**Mr HARRISS** - Thanks for your indulgence, Mr Chairman - that was an extension of where you were going with wood supply agreements which lead into the carbon.

**CHAIR** - You extended well.

**Ms FORREST** - In his financial analysis the Auditor-General makes the comment that the decline in the current ratio to the four-year period - though it did increase in the last financial year - reflected the increase in the current portion of biological assets and the decrease in the current portion of the liability and a decline over that period affected Forestry Tasmania's weakened working capital position, which is where I was before. We talked about some of the debt collection, which seems to have gone out again, potentially impacting on revenue streams when the current assets are insufficient to cover current liabilities can indicate additional sources of funds are needed to meet operational investing cash flows. My question in relation to that is, what plans are there to find additional sources of funds? Also, is the Dismal Swamp, or the Tarkine Forest Adventures formerly known as Dismal Swamp where that all sits, part of the strategy or is that separate? Can you do both those?

**Mr GORDON** - We have two components to the strategy to improve our cash flows. One is to look at what assets are performing at less than our expectations of a rate of return and to see if we can sell those to someone who might be able to do better. Certainly the Tarkine Forest Adventures is one of those and we are still going through a process to look at having someone else manage that asset and pay us on a percentage of turnover.

We are also looking and we have gone through a process in the last couple of years to look at all the other assets that we own that may or may not be core business. We have gone through an analysis of those. For example, the latest one happened last week: we have some land at Triabunna where we used to have a major district office that the local council has approached us about setting up a medical centre. That is a win, win. We will get some money and they get a building established quickly.

We are looking at other assets, our motor vehicle fleet and a whole range of things that traditionally we have had effectively as assets on our balance sheet that you do not necessarily need that way. So we are looking at doing a whole lot things a bit differently.

Part of the focus on Trees on Farms and the Forest Technical Services is about producing an income stream which is in a different market cycle from the pulp and paper industry. With the work we are doing in the Northern Territory, there is a long-term potential income stream which is not related to the standard pulp and paper industry.

The challenge we have is that we are quite market exposed to the international market, which varies according to the value of the Australian dollar and so, unlike most of the GBEs which, effectively, have a much more stable income stream because it is based on very predictable, domestic income flows and cost structures, our performance committee is influenced, quite substantially, by things out of our control. If the Australian dollar was not 90 cents then China, for us, would be a gold mine. If it was at 60 cents or 65 cents, like it was in February/March, it would be a completely different game. So there are two things. We have to review our cost structure and our asset base and we have to find income streams, which we are pretty well placed to do with the Forest Technical Services staff, which are in different market cycles than the pulp and paper industry.

**Ms FORREST** - In Dismal Swamp, what has happened and why have we not been able to, as mentioned earlier, secure another operator? What are the plans for the future there and also for Newwood, that will come after? That is obviously something that needs to be considered as it does not seem to perform as intended. So we are still not making money. But you can do the Dismal Swamp thing first.

**Mr GORDON** - With Tarkine Forest Adventures - Ken says, I have to call it that all the time, previously known as Dismal Swamp - we went out for expressions of interest in companies to take over the management of some of our tourist ventures. We did get quite a way down the track with our preferred proponent but last week they decided, for their own reasons, that they could not complete the transaction.

**Ms FORREST** - How many expressions of interest did you receive?

**Mr GORDON** - We received several. I would rather not go into the details because we are going back to each of them and starting negotiations again. It is a bit like any sales process, sometimes you get your preferred proponent and for whatever reason they cannot complete and you have to go back through a process with the others. So we are looking at doing that at the moment. But our intention is still to find an operator for Dismal and maybe some of our other ventures.

**Ms FORREST** - Particularly?

**Mr GORDON** - We currently have a different structure with Hollybank, for example, where we are not the operator of Hollybank, we are a 50 per cent owner and we are the landlord but we have someone else running it, which I think offers some advantages in having a smaller company run a tourist venture than a large corporate like we are. So we are going through that process again and it may be that some time in the next couple of months we may well have been able to get back to a stage of the process where we do have a completion and someone else may take over the management rights, for some or all of our adventure forests brand.

I think setting up the tourism ventures was great for regional economies in Tasmania. It still makes money for FT but I think it is probably not our core business, operating tourist sites and so we are better off -

**Ms FORREST** - So what is the actual loss that Dismal Swamp has reported in the last financial year again?

**Mr GORDON** - It was a couple of hundred thousand dollars.

**Ms FORREST** - So similar to what it has been previously?

**Mr GORDON** - Yes. That is partly because the tourism sector, outside the major cities, has dropped off and we probably have a higher cost structure as a large corporate than a family-owned operator might have for running that same venture. So we need to look at that.

[11.30 a.m.]

**Ms FORREST** - The plan, as I understand it, was to expand the operations there to accommodation and other aspects of tourism, I guess.

**Mr GORDON** - That was the proposal that the proponent whom we have not been able to complete with had, yes, but other operators might have different ideas about how they could grow the business.

**Ms FORREST** - So another operator might not want to do the accommodation aspect and -

**Mr GORDON** - They might want to do that and something else.

**Ms FORREST** - So you are able to do the negotiation on that whole front?

**Mr GORDON** - Yes.

**Ms FORREST** - With Newwood, then, it seems that has not been making a great deal of money for Forestry Tasmania, and the lack of the wood-fired power station is perhaps the biggest thing. Can you provide a bit of information on where that is headed, what the plan is with that?

**Mr GORDON** - Again, to go back a bit, there was an act passed by the previous Federal Government called the mandatory renewable energy target act which required sellers of electricity to have a minimum amount, 2 per cent, of their electricity from renewable energy sources. The previous Government announced they were not going to renew that act which had a deadline, so what happened is all investment in renewable energy, whether it was wind or biomass, got put on hold. The new Government announced that they were going to renew that legislation and put it up to the Senate, where it got knocked off. They went back again and it got passed in late October this year, and in that period up until then no-one was really going to invest in any renewable energy until they knew that the percentage of energy that they needed to get went up from 2 per cent to 10 per cent, and the time horizon for that renewable energy to pay it off went out to, I think, 2020.

**Mr LLEWELLYN** - Twenty per cent is the new target.

**Mr GORDON** - Twenty per cent is even better. All renewable energy requires that renewable energy credit subsidy to work, whether it is wind or solar or biomass or any of the others. They cannot work without that. Basically, everything went on halt until that was passed, and now it has been passed we have had another flood of expressions of interest in doing a wood-fired power station at Huon based on, firstly, the waste resource on site from the rotary veneering sawmill, and bringing in some of the wood that would otherwise have been burned in regeneration burns. So we are back full bore on that, it has just been effectively three years -

**Ms FORREST** - So you are optimistic that will actually finish like that?

**Mr GORDON** - I am very optimistic that will happen. By the way, we have also received several requests from indigenous landowners in the Northern Territory. Up there, all their electricity is run by diesel generators at a cost of something like \$400 a megawatt-hour when you and I pay \$100. In most of those areas, particularly one where there is a bauxite mine, enough timber is bulldozed and burned on a mine-clearing site every year to produce a megawatt of electricity in those communities from renewable energy. So they have applied to the Federal Government for some innovative technology looking at gasifiers. There is also a potential on King Island for that. Again there are diesel generators there.

**Ms FORREST** - Some wind.

**Mr GORDON** - A little wind.

**Ms FORREST** - A little bit of solar, a few solar panels out there.

**Mr GORDON** - The problem with wind without underlying hydro or base thermal, is you cannot store the power for when there is no wind. Regarding the diesel generators there, we are working with the Hydro and with the local council. Is King Island in your electorate?

**Ms FORREST** - Yes.

**Mr GORDON** - We had better talk more about that. You will probably notice a lot of the windrows the farmers planted there are now dying because they have been paying people to knock them over and burn them. There is enough wood in those windrows and our plantation resource to again produce 1 to 2 megawatts of electricity, baseload thermal, and it can produce steam by-product.

**Mr LLEWELLYN** - I think that is a question you should ask the Chairman of the Hydro.

**Ms FORREST** - Yes. Just on that point, is there any likelihood at the Smithton Ta Ann plant?

**Mr GORDON** - Their current boiler does not have enough thermal capacity and pressure to run a turbine, but again there is enough wood resource in that area to probably generate a couple of megawatts. We were floating the option that maybe one of the potential uses of some of the McCain ex-infrastructure would be a small biomass power station to be created there, because as you know, Smithton is on the end of the network, so if something happens, such as a farmer runs through a pylon, then everyone else gets cut out. But if you had a generator on the end, it would actually change some of that and certainly would be more reliable than wind.

**Ms FORREST** - Is that just an idea at the moment or is it more substantial?

**Mr GORDON** - It is an idea because I only found out about McCain shutting down last week.

**Ms FORREST** - Did you?

**Mr GORDON** - Yes, I have been away.

**Mr HARRISS** - Just on that Newwood, if I can, extending that a bit: where else in the world are there bioenergy generators and how many of them have you had discussions with? I do not need to know specifics but just a broad grab of that.

**Mr GORDON** - There could be several hundred thousand.

**Mr HARRISS** - And just finally on that, what size power station would you be looking at or considering at the Huon site?

**Mr GORDON** - We are probably looking at something between 10 and 15 megawatts to start off. If you go to Europe, every town basically has a wood-fired either power station or

central heating. I went to Germany and looked at a really small one in a school. It is in a school building, a little building about half the size of this room and it generates all the heat for the local swimming pool, old people's homes, council buildings and the school and it is run from the trimmings from the trees that council go around and chop down and from basically a recycling centre at their refuse site. So all the woody material gets chopped up, put in a feeder, screw-fed, it is run automatically and it runs in winter.

**Ms FORREST** - Or the garden trimmings.

**Mr GORDON** - Or the garden trimmings basically. If you look at the WWF, the World Wildlife Fund, position on renewable energy in Europe, their major thrust is to have it generated from wood-fired power stations, all of which come from native forest sources. For some reason that I really cannot understand, unfortunately some of the green groups in Australia oppose renewable energy and I know it is sort of a religious thing that they do not like trees being chopped down but there is a huge potential in Australia for biomass renewable energy and nearly all of it will replace fossil fuels.

**Ms FORREST** - With another good wind we will have a few blown down that they could put through it.

**Mr GORDON** - In France one of the major reasons for the drop in wood pellet prices in the last six months is they had a major storm and they have been harvesting their forests and putting it into wood-fired power stations and some of it into co-firing coal power stations as well.

**Mr HARRISS** - I think that is fairly important because, as Ruth identified, the Auditor-General has raised that as a concern, the fact that Newwood has been continually tracking without ramping up to a profit situation, and that is encouraging. Have Ta Ann developed their biomass generator in Malaysia that they were looking at maybe 18 months ago?

**Mr GORDON** - They have two. I have seen lots of wood-fired power stations throughout the world because we want to do what is best. They have a 10-megawatt one at their veneer mill which runs just off the veneer waste, which generates processed steam for the mill for the dryers and produces on average 8–10 megawatts, some of which they sell back to the grid. They have another one at their palm oil plant which just burns palm oil, waste and husks and it generates a bit over a megawatt and that is about the amount of power they use at that site.

I saw three in Uruguay, brand new ones that have just been commissioned, all running from eucalypt forest waste using new gasifier technology; you gasify the wood so it becomes a gas like a diesel gas almost - it can run in diesel generators - and the benefit of that is you can combine it with biochar production at the same time and put charcoal and carbon back into the soil, which is one of the options we are looking at in the Northern Territory because they have quite low organic matter in the soil up there and this gasification of biochar technology looks quite promising for that. It is not as if it is different technology. If you go to Europe these things are everywhere, it is just we do not yet seem to have them in Australia, although there has been one at the Burnie pulp and paper mill for the last 30 years.

**Mr WILKINSON** - If I could get on to contractors, many of the contractors are doing it tough. I think at the start you were saying you believe there is continued work for 75 per cent of the present contractors. Obviously 25 per cent would have to be looking for other work. What is happening in relation to helping these contractors get out of the industry?

**Mr GORDON** - We believe we have about the right contractor capacity for our business.

**Mr WILKINSON** - Now?

**Mr GORDON** - The Fair Contract Code requires us to evenly distribute the work, so our contractors are on basically 75 per cent of their normal activity levels. One of the reasons we are looking at restarting log exports is, if the pulp market does not pick up we can keep the activity up in the sector, which allows us to then supply our other domestic customers like Ta Ann in Huon and Smithton and the sawmills. Other principal contractors may have over-capacity but we do not believe that is the case with us.

**Mr WILKINSON** - Because the overall target is, as the word is out there, 30 per cent have to be eased out of the market - is that a fair figure?

**Mr LLEWELLYN** - It has been an issue that the contractors have spoken to me about on a number of occasions. I have addressed some of the issues that they have talked about. In the past there have been a number of imports some of which the contractors would indicate have required some sort of government action to buy out some of the industry. It is a very difficult area for the Government to get into, as you know. It has been variously reported that the cost of doing that might range, I think, in one report from \$90 million through to another one that talked about \$19 million to \$20 million. But I think if we can work through this downturn as it is at the moment, normal commercial arrangements will take care of those sorts of issues. They are issues that have been also presented to me in regard to the fair contracts arrangements that contractors have with the principals, that is Forestry Tasmania and Gunns. I agreed to look at some of those.

There were some arrangements that had been put in, in Victoria, that they thought were superior to what we had under our fair contract arrangements here in Tasmania. When we analysed those and had comments from people in Victoria in the industry, I do not think that the facts that were expressed were reality but nevertheless, there were a number of issues that I have agreed to look at with the contractors to improve their ability and surety so that they can access finance. That was one of their major issues; because of the uncertainty that was around, it was difficult for them to obtain finance through banks or their equivalent. So we agreed to look at a number of aspects which, I think, have been publicly exposed to improve that and that has not happened at this stage and will require some legislative change probably. I think that is probably all I can say about it at the moment.

**Mr WILKINSON** - So, as far as Forestry Tasmania is concerned and the contractors who are presently working with them, do you believe that there is going to be continued employment for them even though at the moment they are working at 75 per cent of their capacity?

**Mr GORDON** - Correct. When the market picks up we might not have enough, but it has been a longer downturn than most people expected and, again, for most of those contractors, I suspect they would much prefer to work at 75 per cent than shut down. Again, we are doing everything we can to develop - for example, the wood-fired biomass power station will create another couple of hundred thousand tonnes of activity for people throughout the State. Wood that is currently being left on the ground and burnt in regeneration burns can be picked up and transported - there is work there for harvesters and contractors and the transport contractors; the sooner we get some of those things going, the better.

**Mr KLOEDEN** - I think it is also important to note that downturns happen and when you are in a downturn, it is a natural reaction to think that the economic circumstances of the downturn will go on forever. Similarly, when you are on an upturn and you get to the top of the market, people behave as though it will go on forever, and it never does - it goes down and goes back up. So you need that perspective on it. It is very difficult; Forestry Tasmania is suffering greatly as a consequence of the downturn, so is industry and so are the contractors, but markets do rebound, although in this case probably a little later than we would wish and hope. But that does happen. This is not a situation that will prevail forever.

[11.45 a.m.]

**Mr WILKINSON** - Often what occurs in situations like you are talking about is that people work smarter and people identify new markets et cetera. Has that been happening with the contractors in relation to working smarter?

**Mr GORDON** - If you look at some of the big contractors who had this initiative to convert from diesel to liquid natural gas engines, I think the plant is being built at Westbury at the moment -

**Mr LLEWELLYN** - It is opened now.

**Mr GORDON** - Did you want to talk to it?

**Mr LLEWELLYN** - No, the Premier was up there a few weeks ago opening the plant, so it is operating now.

**Mr GORDON** - The idea of that was firstly, it has substantially less CO<sub>2</sub> emissions impact for a natural gas versus diesel and secondly, it is a much more stable price. They expect it to be cheaper, but one of the problems that we have had in the last two years has been the huge fluctuations in the price of oil which gets passed on to diesel.

So, a group of them got together and had that proposal. A couple of them introduced central tyre inflation, which means that when you are on dirt or muddy roads you lower the tyre pressure, whereas when you are on the highway you increase the tyre pressure, which gives you better fuel economy but better traction. They have done a whole series of things like that to work smarter in a tough climate.

**CHAIR** - A political question for the minister, remembering what the Treasurer said at GBEs, I think, last year with regard to the sale of TOTE, is there any potential for any consideration of the sale of FT?

**Mr LLEWELLYN** - No.

**CHAIR** - That will do.

**Ms FORREST** - Any discussion about a potential sale?

**Mr LLEWELLYN** - No.

**CHAIR** - None at all. Any consideration about the sale of -

**Mr LLEWELLYN** - Obviously, if I get some advice from Forestry Tasmania about these sorts of issues I would take them on board but I have not had any.

**CHAIR** - Following on from that, has there been any consideration of the sale of any part of FT, noting that there has been consideration of selling FT's share in Taswood Growers in the past?

**Mr LLEWELLYN** - Again, the last part of my answer is relevant there; as a corporation Forestry Tasmania would keep the Government advised about all possibilities in regard to that issue. We did have the issue of the soft wood plantation but you could hear it from the mouth of the Managing Director.

**Mr GORDON** - As I said before to one of the other questions, we actively look at all our assets. If you ask about any assets, there is a fair chance we will be selling some vehicles into a lease agreement because we think that it is a more efficient use of our capital. We are looking at selling some land that we used to have offices on that is surplus to our requirements. There are a couple of other properties that we have been looking at that I think would be great tourist opportunities which, again, we are looking at at that moment.

**CHAIR** - Is that cleared land at the moment or -

**Mr GORDON** - Yes, it is at Triabunna, it is in the middle of the town. We have some other land in the middle of Deloraine, Latrobe -

**CHAIR** - In the middle of Deloraine? That is all urbanised.

**Mr GORDON** - Yes, it has an office on it.

**CHAIR** - Oh, yes, I thought that was already sold.

**Mr GORDON** - No, it is not all sold. Some of those things we are looking at. Do we need to own those assets, can we lease them back or do we need them at all? We always look at that. I am just flagging that is one of the things that we are doing at the moment, looking at all those assets.

The softwood joint venture we have looked at a couple of times. At the moment there are so many forest assets on the market it is probably not the right time, although perversely, if there are lots of people bidding for those assets like Queensland plantations, Timbercorp, Great Southern and any others that come up that did not win and have money in their pocket, we always keep those things open. We constantly keep on eye on the market for those sorts of things.

**Ms FORREST** - I would like to ask a question regarding the beekeepers. I understand that there has been a special management zone created around the Wedge where there will be a no-burn policy to ensure that the leatherwoods will regrow. I have two questions. Firstly, are there plans to develop such zones in other parts of the State? My patch does not really need it because most of our beekeepers are in protected areas anyway, so they are pretty right but others are not so, apparently. How does Forestry Tasmania determine what is a leatherwood-rich area?

**Mr LLEWELLYN** - I have met with beekeepers on a number of occasions and there are specific issues for beekeeping - there is no doubt about that. A trend in beekeeping is to move to

providing services for people for pollination and those sorts of things as much as producing honey, so there is a transition that is occurring in the beekeeping industry in that regard.

I know in the Southern Forests there have always been issues with access to leatherwood and the like, and I know that Forestry Tasmania has worked with the beekeepers to try to achieve equitable outcomes for them and there is a sort of protocol in place that takes that into account. I am not sure that the beekeepers are totally satisfied with that but, nevertheless, it is -

**Ms FORREST** - They were happy with the special management zone at the Wedge.

**Mr LLEWELLYN** - Yes.

**Ms FORREST** - I thought that was a very positive step for forestry.

**Mr LLEWELLYN** - But as to whether the leatherwood is protected for beekeeping, maybe either Dr Drielsma or the Managing Director could talk about that.

**Mr GORDON** - Hans is our bee person.

*Laughter.*

**Ms FORREST** - Be nice then.

**Dr DRIELSMA** - The Wedge was a local agreement that was negotiated there with the district and I understand that that met their requirements and allowed us to have a reasonable position also in terms of ongoing production.

I think it is important to put it into context because, as we have outlined on our stewardship report, there is about a million hectares of forest in Tasmania that is identified as likely to contain leatherwood. About a third of this is in State forests and only about a third of that is in areas zoned for wood production so we have looked at our forest classification process to try to identify those forests that are likely to have a high component of leatherwood in them. By our estimates we have probably impacted on less than 3 per cent of that over the last 20 years.

It is not a huge impact but we know that there are particular areas where we have to deal with it, the Wedge being one of them. I do not know whether we would be looking to have similar zones, in that sense, but certainly the introduction of our variable retention harvesting, which is our alternative to clear-fall, burn and sow which, just as an aside, I would point to the fact that private forest owners do not do variable retention. This is something we do that costs us an extra \$5 a tonne for which we don't, in the long term, get any recompense. So it is one of those areas where, again, we are doing non-commercial management to meet the broader requirement.

**Ms FORREST** - But you still burn those areas.

**Dr DRIELSMA** - So in those variable retention areas we are leaving up to 30 per cent within a coupe. Obviously if there are leatherwood areas then we can also design to try to maximise the retention of leatherwood, which means that the leatherwood is going to be represented in that stand as it regenerates into the future and it will also reseed much more quickly into the regenerated area. We think that that is going to be one of the ways that we can minimise the

impact on leatherwood production, both retaining it at present and maximising its influence in the future.

**Ms FORREST** - So how do you determine what leatherwood is in which area? What percentage?

**Dr DRIELSMA** - I do not know. We have a classification process.

**Ms FORREST** - So the number doesn't make any difference.

**Dr DRIELSMA** - Clearly there are areas that are rich in leatherwood where areas are typed out, where our forest typing indicates that there is a significant component of leatherwood and other areas where there is not.

**Mr GORDON** - There is no shortage of leatherwood, it is just that most of the leatherwood is now in the national parks system.

**Ms FORREST** - It is not accessible, that is right.

**Mr GORDON** - Well, it was accessible, and some of them agreed to pull up roads and bridges that stopped their access to leatherwood. So in the Southern Forests, if they hadn't pulled up some of those roads and bridges, there was plenty of access to leatherwood in the parks system.

**Ms FORREST** - In the member for Huon's electorate.

**Mr GORDON** - Yes.

**Mr LLEWELLYN** - He has been down there putting them back in.

**Mr WILKINSON** - That is right, he is a hardworking member.

**Mr LLEWELLYN** - He is.

**Dr DRIELSMA** - The effort by CEE over the last few years has done quite a bit of work in trying to understand the whole dynamic of the industry and one of the really significant things they have put together was showing that there was almost a one-to-one correlation between the production of leatherwood and the extent of roading undertaken by Forestry Tasmania in the forests. It is the access to the forest created by the logging roads that has allowed the leatherwood industry to thrive and so there is actually a symbiosis between logging and leatherwood.

**Ms FORREST** - Which they do not deny.

**Mr GORDON** - And for which we do not get paid.

**Dr DRIELSMA** - Yes, for which we do not get paid. We have been working with them quite closely to try to make sure that we can optimise or maximise the amount of leatherwood that is retained in the long term for that industry based on that roading network because essentially it is the roading network created by the logging that gives them the access in the first place. We are

trying to figure out how to maximise the retention of that in the longer term. It cannot be total, obviously, but we can get the optimum outcome.

**Mr HARRISS** - Mr Chairman, can I go to a matter in the Stewardship Report on page 21, a constraint that the company suggests is imposed on its business by the 300 000 cubic metres mandated. I read into that that you would prefer some flexibility and then if I flip over a couple of pages, there is 245 000 cubic metres this year. If that were to be cut back, what impact does that have on the harvest cycle, employment opportunities and what implications are there to the business of any cutback? Clearly, we hear the criticisms regularly by detractors of the forest industry that we are pulping old growth but I maintain that that is a residue process but that is a constraint on the business and so there are a couple of questions into that I think.

**Mr GORDON** - The constraint is for us to be able to demonstrate that we can make available 300 000 cubic metres of high-quality logs into the future. Any particular year is mostly driven by demand so when the sawn timber market is down like it has been in the last 12 or 18 months then the demand for sawn timber actually goes down.

**Mr HARRISS** - Categories 1 and 3?

**Mr GORDON** - Yes, so those supply figures are partly driven by demand and what we have to look for is the supply side to make sure that we have that much available if the market wants it in any particular year. It is a constraint. To go back to the point we were discussing at the very start of the hearing, if we did not have that constraint then we would act differently in managing the forests. We would probably have shorter rotations, we would probably make more money and we would probably produce more pulpwood. It is a constraint that other owners do not have and therefore they manage their forests differently. As it happens, that constraint of having effectively longer rotations is a pretty good proxy for the environmental services that are produced from the forests. So in general, the longer the rotations, up to a limit you would expect that you would produce more non-market goods and services from the forests like biodiversity, environmental services, water flow, those sorts of things.

You can produce high-quality sawlogs much more quickly which is what we are doing on the plantations with the much more intensive self-cultural management that we have pioneered. The Parliament decided that it was in the interests of the community to have that requirement in there to make sure that there was the capacity for a hardwood high-value log processing sector in Tasmania and as a result of that it put constraints on the intensity with which we can manage the native forests estate in particular.

**Mr HARRISS** - So if Forestry Tasmania were to have revisited that you would see a reduction in the 300 000 cubic metres as being desirable?

[12.00 p.m.]

**Mr GORDON** - I would like to produce more sawlogs because that is what our aim is in the plantations because that is the highest-value product. It has the greatest flow-on effect in terms of employment. But every time an area of forest is removed from the managed estate and put into reserves, it has an impact on our capacity to supply that 300. The last 20 years have seen maybe one million hectares of State forests go into national parks and it is getting to the limit where you just cannot squeeze any more out of the forests.

**Mr LLEWELLYN** - I think that was the point I wanted to make too. The pressure on the mandated amount is really to do with the available forested land to which Forestry Tasmania has to work. As that comes down there is more pressure that is being applied to the 300 000 cubic metres, which is what Bob just said. Now, I think, in land terms of Tasmania, some 19 per cent of Tasmania is controlled by Forestry Tasmania for forest production. But out of that 19 per cent of land there is only about 10 or 12 per cent or so that is managed and logged.

**Mr HARRISS** - There is one important matter that I wanted to go to and that is with regard to category 2 and category 8.

**Dr DRIELSMA** - There is a table attached to this which has all the production including category 2 and category 8 sawlogs over the last five years.

**Mr GORDON** - It is mostly demand driven as well.

**Mr HARRISS** - Yes, that is the issue I was going to, Mr Chairman, because Bob has indicated that Forestry Tasmania's business had a focus on sawmill production and supply. My understanding is that the smaller sawmillers do not have the same security of access to the resource as those who can access the 300 000 cubic metres in categories 1 and 3.

**Mr GORDON** - Not necessarily. It depends greatly on the individual customer. Some of our small sawmilling companies have exactly the same contract terms as the bigger ones. It depends who they are and what their market is and what they are prepared to lock in on the other side. So a lot of the category 2 and category 8 are driven by the pallet market, which goes up and down like a yoyo.

**CHAIR** - It is 12 p.m. I think this is a sign sent from above. Minister, I would like to thank you and all of your FT staff for the briefings this morning and we will resume at 1 p.m. for Hydro.

**The committee suspended at 12.04 p.m.**