

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Wednesday 1 December 2010

MEMBERS

Ms Archer
Mr Hidding
Mr Morris (Chair)
Ms White
Mr Wightman

SUBSTITUTE MEMBERS

Mr Booth
Mr Gutwein
Mr Rockliff
Mr Shelton

IN ATTENDANCE

Hon. Bryan Green, Minister for Energy and Resources

Ministerial Office

Ms Karen Vadasz, Senior Adviser
Mr Gary Swain, Head of Office

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 Morris) - Minister, would you like to commence with a brief statement?

Mr GREEN - Today provides an opportunity for scrutiny of Forestry Tasmania's performance for the 2009-10 financial year and, strictly speaking, it would be the only issue to be discussed today. However, there is clearly significant change occurring in the forestry sector and I acknowledge that this is likely to be of keen interest to all members of the committee and therefore I would like to make a few introductory remarks on this topic.

To date the Government has been as open as it possibly can about the changes that are occurring and will continue in that vein. There is no doubt that the market and social changes which have led to the development of the industry and ENGOS' Tasmanian forest statement of principles are extremely complex. The Government supports the principles as a significant step forward. The core intent of the statement of principles is to resolve the conflict over the forests in Tasmania, protect native forests and develop a strong and sustainable timber industry in the State. In essence, they provide for a progressive move away from the harvesting of commodity, specifically native forests on public land over an extended period, subject to the development of adequate replacement hardwood plantation sawlogs wood supply. In addition, they recognise the importance of implementing a near-term moratorium on high-conservation value forests and commit all signatories to supporting a world-scale and sustainable pulp mill located in Tasmania. The principles recognise the need to build on the significant advance made during the first round of negotiations and resolve a full agreement with respect to the forest industry transition, with active support of and facilitation by the Tasmanian and Australian governments.

The statement of principles provides a framework for the development of a final agreement to be negotiated over the next six to 12 months, with active support from the Tasmanian and Australian governments. The principles could develop into a set of arrangements that will see the Tasmanian forest sector transition to plantation-based sawlog veneer, and a world-scale pulp mill industry in which woodchip exports represent a decreasing proportion of aggregate activity. For this to occur, the following steps need to be taken. First, and critically, community anxiety and tension around potential and actual employment losses need to be kept below a level that will prevent key stakeholders from progressing the principles to the benefit of all Tasmanians. Second, the governance arrangements for progressing the principles, which the State Government has recently developed, need to be put in place with the support of the signatories to the principles and the Australian Government. Third, the principles need to be developed in a structured way so that a clear path to resolving a final agreement exists within the next few months. Four, transitional and market issues currently facing the sector need to be managed to maintain the capabilities of the sector that we will need into the future. In the immediate term, the Australian Government assistance to the forest contractors needs to be released to ensure significant contractor capacity is maintained in the long term and so that existing contractors are treated with fairness and dignity and are able to transition into other areas of economic activity. Five, critical infrastructure, particularly the Triabunna export woodchip facility, needs to continue to operate as Gunns progresses its publicly stated intent to move away from native-forest-based harvesting.

These steps are hugely challenging and all involved will need to participate in a considered and constructive manner. Clearly, the potential implications on Forestry Tasmania are significant and we need to recognise that Forestry Tasmania is made up of dedicated, hardworking Tasmanians and that the board and managing director will face significant internal management challenges during a period of some uncertainty in coming months. While I do not yet know what changes are likely to be required to Forestry Tasmania's business model, I believe it is likely that there will be some and that the Government, as the owner of the business, will need to put

appropriate processes in place to enable these changes to be worked through with Forestry Tasmania.

I wish to close by putting on the public record my appreciation for the way that Forestry Tasmania and particularly the chairman and managing director have constructively supported the development of the principles for the greater good of Tasmania.

Mr KLOEDEN - As I have said in previous years, at Forestry Tasmania we look forward to appearing at the Government Businesses Enterprise Scrutiny Committee hearings. It provides us with an opportunity to reflect on the year that has been and to give our shareholders an outline of our plans, strategies and aspirations for the future.

I want to start by thanking my fellow board members for their hard work, their attention to good corporate governance and in fact to all of FT's management and staff for their thoughtful approach to the many challenges that face Forestry Tasmania.

It will not come as any surprise to this committee that the previous financial year was challenging. Forestry Tasmania recorded an operating loss for the first time. FT experienced a \$21 million fall in revenue from \$183 million to \$162 million, driven by a number of factors including the global financial crisis, unfavourable exchange rates, the closure of the north-west mills and the collapse of managed investment scheme plantations. However, this fall in revenue was partly offset by very tight cost control; operating expenses were down \$4 million on the previous year and capital expenditure was wound back by 26 per cent.

It is also important to note that the recent revaluation of State forests accurately identified Forestry Tasmania's community service obligations to manage forest reserves and specialist timber areas at \$9 million. When this amount is taken into consideration, FT's underlying profit for the year was \$1.2 million. However, the operating loss was \$8 million, a relatively modest amount compared to the losses incurred by other forestry companies some of which, particularly those in the MIS sector, were unable to survive.

In the context of this challenging year it is also important to note the significant contributions FT has made to the economy since it was corporatised 15 years ago. For example, our estimated expenditure on unfunded community service obligations over that period of time is \$89 million. We have contributed an estimated \$26.5 million in payroll tax and \$18.5 million in the national tax equivalence regime. We have paid \$13.5 million in local government rates since 2004-05 and we have paid special dividends of just over \$111 million. By any measure FT is a significant contributor to Tasmania's economic security.

As you would expect, we have been looking very closely at how the industry in Tasmania may evolve in the months and years ahead and FT's role in the evolving industry. While FT is not a signatory to the statement of principles, it supports the efforts to find agreement between ENGOs and the industry.

I want at this point to take the opportunity to commend Bob Gordon for his significant contributions to the peace process, the work he has put into building relationships between the two sides and assisting to find workable solutions to issues that have arisen. In fact there is a body of opinion that suggests an agreement is not workable without Forestry Tasmania playing a role. The nature of that role is not clearly defined but as you would expect Forestry Tasmania knows more about State forests than any other organisation and it would be rather odd if that were

not the case, since we have been managing these forests for 90 years. FT is the only fully-functioning integrated State forest manager in Australia. It has the human capital, the skills, the knowledge and the know-how and the experience to deliver outcomes that will be sought from a lasting agreement. We accept that change is inevitable. We accept that FT's biggest customer, Gunns Limited, is exiting native forest products, and we accept some critical infrastructure will need to be maintained. However, it is worth remembering that we have been preparing for this day for many years. We accepted a decade ago that there would be a shift away from Japanese woodchip customers, and there would be a shift away from old growth to regrowth and plantations, and that is why FT actively sought new markets. Ta Ann is a shining example of what has been achieved in market diversification. The industry would have been in a lot more trouble without Ta Ann. In terms of resource, we are the only forest company that has been growing plantations for sawlogs.

Change is a part of FT's culture, and that is why I am confident the organisation will meet the challenges ahead. It has been repeatedly reinvented to meet changing market and community expectations. It is adaptable, flexible and innovative, and it should surprise no-one that it will be in the vanguard when it comes to leading change.

It has been widely reported that FT wants to take over the Triabunna woodchip facility. That is not quite correct. FT has been vigilant in looking forward to predict issues that might arise out of changing circumstances, and Triabunna is one of these issues. Triabunna is critical infrastructure. Without its sawmill and forest harvesting on private as well as public land, it would be uneconomic. We at FT might have been the first to identify the need to keep Triabunna, at least in the short term, but it does not mean FT wants to own or operate it. In fact we would be reluctant to take that role. We are encouraged that a consortium of family sawmillers, forest managers and timber processors have met to consider how it might step in to operate woodchip facilities if and when Gunns vacates the field. If the consortium proceeds and we are part of it, then it is most likely that we will be just one of its many members. As we go through the peace process, many of these types of issues will arise and we will provide advice to all parties about the implications of the various scenarios.

The Tasmanian forest industry, through the statement of principles and agreement of the ENGOs, has the potential to grow its contribution to GDP and employment, and with a social licence. Critical to achieving these outcomes is the development of a plantation-fed world-scale pulp mill. The project would create 3 000 jobs in the construction phase, 300 ongoing direct jobs and up to 1 500 indirect jobs and contribute over \$6 billion to gross State product.

At the next level family-owned sawmills, and Ta Ann's rotary peel veneer mills operating with support of the ENGOs, would deliver high-value sawn and processed product to the Australian and international markets. In the longer term woodchip exports would be replaced by downstream processing opportunities, including the manufacture of laminated veneer lumber, rayon products and carbon-friendly fossil fuel replacements, including torrefied wood. An agreement with the ENGOs, the development of a pulp mill, innovative downstream processing of waste residues, maintenance of smaller family-owned sawmills and a growing plantation estate has the potential to reposition the Tasmanian forest sector as a global trusted source of sustainable forest products and services.

In conclusion, Mr Chairman, I would like to bring to the attention of the committee the stewardship report. We may not be able to cover in depth all of the issues, but this publication,

our annual report, is a very good reference document. It is data-rich, it is easy to read, and I commend it to you.

Mr GUTWEIN - Just one matter in regard to the minister's opening statement, the committee was good enough to indulge you for almost 10 minutes whilst you read it. There was a great deal of information there and, whilst it may be on the *Hansard*, I wonder if you could do the courtesy of tabling it so the rest of the committee could have that whilst we go through discussions today. You touched on a number of technical issues.

[9.15 a.m.]

Mr GREEN - You did not get me to table it yesterday.

Mr GUTWEIN - You did not read out a 10-minute -

Mr GREEN - Yes, I did.

Mr GUTWEIN - No, you did not read out a 10-minute statement, not as long as that.

Mr GREEN - It was exactly the same.

Mr GUTWEIN - I am just wondering -

CHAIR - You asked the question, I guess it is up to the minister.

Mr GUTWEIN - I am not sure if you backbenchers have seen it -

Mr GREEN - It is on *Hansard*.

Mr GUTWEIN - *Hansard* will not be able to be read until tomorrow. Why won't you table it and let us have a copy of it whilst we go through procedures?

Mr GREEN - I just read it to you.

Mr GUTWEIN - Would you -

Mr GREEN - Why do you want it tabled?

Mr GUTWEIN - Well, I would like to because there were parts of it that I would be interested in exploring today and with some of the comments you made, I do not want to take them out of context, so I would like to have your statement in front of me while we go through that.

Mr GREEN - I just read it to you. Ask your question.

CHAIR - I guess you will have to put the question on notice.

Mr GUTWEIN - That is extraordinary. Are you backbenchers just going to sit there - have you seen it?

Ms WHITE - I listened to the minister and I took notes and you could have done the same.

Mr GUTWEIN - I have taken some notes.

Ms WHITE - There you go - you will be right to go then.

Mr GUTWEIN - You are not happy to have people have a closer look at it?

Mr GREEN - That is right. Go right ahead; ask your question.

Mr GUTWEIN - Well, let me ask you a question straight from it. You said one of the issues that you had to manage was the community anxiety. I wonder if you would reread that section and explain exactly what you mean and how you are going to do it in regard to job losses?

Mr GREEN - I thank the member for his question. There is no doubt that the statement of principles that have come to the Tasmanian Government have come from the industry, the union and of course the ENGOs and they set out a framework that means that there is quite significant potential change to the way that the forest industry operates in Tasmania. Inherent in that obviously is the fact that there are a lot of people engaged in the industry and the change required would mean that there would be some structural adjustment needed, there is no doubt about that. I think the industry recognises that, certainly the union does, and of course the ENGOs have been arguing for high conservation forest to be set aside.

So we have carefully thought our way through that and we believe that the appropriate mechanism is to ensure that we set in place a governance model that allows for the discussion to progress that includes obviously the signatories to the agreement but has external expertise feeding into that structure providing every opportunity for the negotiations to reach a conclusion that, as part of it, includes matters to do with structural adjustment going forward. That is why it is important that the Commonwealth is involved and, of course, at a State level the Tasmanian Cabinet is involved. As part of that, we have established a subcommittee of Cabinet including the Premier, Nick McKim and myself to work through those issues as we progress.

Yes, there is anxiety out there. There is change afoot, there is no doubt about that. We see this as the opportunity for a positive outcome for Tasmania overall because I think that the principles, at face value, provide an opportunity for downstream processing in the State. They provide an opportunity for, based on the contractual arrangements, ongoing management of native forests and they provide for the protection of significant high-conservation-value forests as well. So it is a matter of a management structure to manage that anxiety as we go forward.

Mr GUTWEIN - So what does that actually mean? For the butcher at Fingal, the guy who supplies tyres at Scottsdale to the industry, how are you going to manage their anxiety? What I wrote down was community anxiety needs to be kept at low levels regarding job losses, I think that is what you said. So how are you going to do it?

Mr GREEN - As I have just indicated we need to bring forward structural adjustment packages at the same time as we work through the difficult issues of change and, of course, we are talking to a large extent transition over a period of time with this agreement. A good example of it, I suppose, is the promise that was made leading up to the last Federal election where both sides of politics promised an amount of money to allow contractors to both leave the industry with some dignity and, at the same time, ensure that we have viable contracting economies of scale

existing in the State for the future. That could be an indication to you of how we might start to manage our way through and, at the same time, our sincere hope is that a large downstream processing operation will be built in the State in the form a pulp mill that will serve to drive our economy forward over the next decade and beyond.

CHAIR - Excuse me, I believe Ms White has some questions as well and I have to give her an equal chance.

Ms WHITE - My question is to the managing director and without wanting to pre-empt the outcome of any discussions, I understand that FT's short-term volumes of State forests might halve. So what impact will this have on FT and on other opportunities for downstream processing apart from a pulp mill?

Mr GORDON - The initial work that we did with both the ENGOs and the processing industry was that we looked at the maps from the ENGOs of potential high-conservation-value forests and we then ran some models looking at how much wood was left on a sustainable basis, if you took those areas without the exotic plantations which were gobbled up in the HCV map. The answer was that it was very difficult, but on a rough basis, about half the sawlog that is currently cut could potentially be available if the eventual principles, the conflict between the wood resource and the conservation objectives, could be met and the pulpwood volume would also go down substantially. That, in terms of revenue for FT, is a drop of between \$20 million and \$30 million in revenue and it is not all that much different from what happened in the last financial year, the financial year that this committee is looking at, where the global financial crisis basically hit the forest sector globally and demand in China and Japan went down substantially. It has now picked up, and the Chinese demand is extraordinarily strong at the moment. But if you took that as a proxy for how it might look in the future, then there would have to be substantial restructuring of both the processing and the growing industries. As both the chairman and the minister said, we have been working on a few options about additional downstream processing, which would increase the value of the product. This means that there is more potential revenue and profit for all the people in the value chain from the contractors to the growers, to the processors, to the merchants, but it would obviously be a very challenging environment for everyone.

Ms WHITE - If your access to native forests is restricted, where will the industry source those sawlogs from?

Mr GORDON - The chairman said we have supported the progressing of the principles and as part of those principles there is a substantial reduction in access to native forests. There is also a long time span which is still obviously subject to negotiation about how long that takes. We have done a lot of work on use of eucalypt plantations for solid timber regimes and I think most of the members of the committee have looked at some of those pruned, thinned regimes, which are designed to produce high-quality sawlogs. The processing sector believes that there are still a lot of challenges in terms of drying that material to produce high-grade material. We believe that a lot of those problems can be overcome with the right focus on research and development and technology but there are still a few uncertainties about it, although there are some new techniques that we have developed that will probably improve substantially the sawing and drying characteristics of those timbers by using different selected trees that will grow some of that material better. To summarise I would say that there are lots of potential challenges but there are also quite a few opportunities in this if we can manage to keep the goodwill that is there amongst the parties and work through these issues.

Ms WHITE - I suppose the industry could also look to trees on private land as a way to provide sawlog -

Mr GORDON - Correct. I have some information on the Trees on Farms projects that we have been working on if the committee is interested. I have a couple of photos of how it looks in South America and in Europe. I think some of these projects that we have been looking at - there is a eucalypt plantation in West Australia where you plant quite wide-spaced trees and prune them to a high height but there is sufficient light getting through so that you can graze beef or dairy cattle underneath. So it gets the benefits of both permanently capturing carbon in the solid wood products yet gives quite a bit of shelter for cattle or sheep. On the extreme of that is what happens in India where they have Australian eucalypts widely spaced and actually grow a wheat crop in between the trees.

It gets over that conflict that has been in the Australian community for a while about growing food or growing trees. The work that we have done and the work that is being done particularly in South America suggests that you do not need to have that conflict; you could grow trees to grow high-value solid wood products and agriculture, depending on the soil types and the rainfall. It can be anything from grazing sheep underneath, which Peter Downey is doing on his property near Kempton. He has planted strips of trees and he told me the agricultural production has actually gone up a bit since the trees went on the farm and he has only planted about 10-15 per cent of the farm.

This approach ranges right through to some of the stuff that they do in South America where one major landowner has about 26 000 hectares of these high-value sawn timber products and on the same 26 000 hectares he grazes about 20 000 cattle. So he has two income streams.

Mr GUTWEIN - How many trees are there per hectare under that model of planning compared to the current plantings for a plantation?

Mr GORDON - One of the things that you have to do is plant lots of trees per hectare to start off with and the reason for that is that eucalypts have quite strong hormonal control of their growth responses. They are used to growing with lots of neighbours close to them so they grow straight and tall and the energy of the tree goes into the height. But what you can do is thin them at a very early age. So you still might plant say 1 000 trees per hectare, which is about a tree every three metres, and then at about age two you go and take out half the trees. At about age two you would prune the trees, take the lower limbs off to grow the solid timber regime. Then again at about age four you would probably take them down to about 200-300 trees per hectare which is what those stands look like. When they are young it looks as if there are not many trees there but if you grow them in what the South Americans call a 'lonely tree regime' the tree grows without growth stress. It puts on the maximum amount of diameter girth growth and the benefit of that is that after you have pruned the tree when it was only a small diameter, all the wood that grows on that tree from then on is clear wood. It is wood without defect, without knots.

Mr SHELTON - But the reality, Bob, is that in Tasmania we have not gone down this path at this point in time and we are talking about replacing our native forest sector for mill logs and therefore there is a 25-30 year time frame. Even if we put trees in the ground under this regime now, it would still be 25-30 years before those trees would take over from the native forest sector.

Mr GORDON - We have done some fairly large operational trials of these regimes. Out in the Florentine for instance we have thinned down to about 150-200 trees per hectare and pruned. There are quite a few farmers who have done some of these regimes - our Trees on Farms program, which we launched with the minister earlier this year, the Arboretum in the north-west somewhere - I have just forgotten the name of it.

Mr GREEN - Yes.

Mr SHELTON - Yes, I was there with you, that's right.

Mr GORDON - We have signed up 600 hectares of land for that to be planted, we have another 2 000 hectares in the pipeline, and one of the benefits of these regimes is that with traditional forestry where you are growing lots of trees per hectare it takes a long time to get a fat tree. With these regimes, for instance, those trees there are 11 years old and those ones are 17 years old and they are about ready for harvest, so one of the benefits of this regime is that you can put a lot of growth on a few trees and those individual trees are worth a lot of money because they are big trees with basically a very small defect core in the middle, which means you can get wide boards out of them. This particular South American landowner has also spent a lot of money on a brand new sawmill that cuts 400 000 cubic metres of eucalypt logs a year. The oldest tree going into that mill is less than 20 years old and they are cutting high-value wide boards for the European market. By the way, they also have a biomass 10 megawatt gasifier that produces 10 megawatts of electricity into the grid at the end of the sawmill, and across the road from that sawmill there is also a large rotary veneer mill which takes the logs, so the butt logs are pruned, the next logs actually have reasonably small branches and that goes into the veneer factory to produce high-grade structural veneers.

Ms WHITE - What do you do with the trees that are thinned?

Mr GORDON - One of the options we are looking at is that the trees are quite small, so they only have a small diameter when you thin them, and there is a shortage in Tasmania of treated material for fences, vineyards and posts and because the trees are quite young most of the trees' sapwood can be treated with standard treatment processes. The other option we are looking at is a process called torrefication, where effectively instead of drying the wood at low temperature you dry it at very high temperature with reduced oxygen which means that the hemicelluloses, which have all the sugar and starch in them in the wood, actually burn up. The reason that wood gets eaten is that it has water and sugars in it so if you remove that then you get a preservative-type product which just looks like solid timber but it is actually chemically changed which means you need no chemicals or preservatives or any of the sort of stuff you often have. We have done a couple of trials over the last five years. They have a couple of production plants in Canada and a couple in Europe and we are looking at that sort of thing. The other potential use for that is for biomass energy and again, the statement of principles makes quite clear the support for renewable energy credits from plantation material. Again, you need the economy of scale to do it, like you need, as I think Mr Shelton was saying, economies of scale on the growing side as well, so you need quite a bit of this material to make it worthwhile for someone in 10 or 15 years' time investing the capital in a large, world-competitive, high-value processing facility.

Ms WHITE - On the biomass issue, does the statement of principles preclude plantation timber, are they only used for biomass?

[9.30 a.m.]

Mr GORDON - With the statement of principles biomass was one of the issues that was debated quite hotly and there were different views, I think, even within the groups and, again, we do not want to prejudice any of those discussions. We want to sit down and work through those issues.

Mr GUTWEIN - I want to come back to the crux of this and that is the jobs issue, because at the end of the day that is what this will all boil down to.

Mr GREEN - Yes.

Mr GUTWEIN - It will, because we have people who are very concerned about whether they are going to have a job or not. You would have read recently the CRC report on forestry that was released about three weeks ago and talked about jobs in the industry.

Mr GREEN - Yes.

Mr GUTWEIN - Mr Gordon said in his earlier contribution that an outcome expected from the principles that have been signed up to is that there will about a 50 per cent reduction in the crown sawlog allocation, around 150 000 tonnes gone. You would be aware from that CRC report that the jobs that were in the industry were a bit less than 5 000, about 4 600, I think, and 55 per cent of the timber industry were in the native forest sector, which is about 2 600 jobs. The report also went on to say that each of those forestry jobs supported at least two other jobs in the wider community, so those 2 600 forestry jobs support another 5 200 jobs in the broader community, so just under 8 000 jobs are supported by the native forest sector. We have just heard the crown sawlog allocation is going to be cut in half and that there will be a downgrading of the amount of pulpwood that can be used as well. Regarding this anxiety that you talk about managing, what level of job loss do you think there will be in the native forest sector?

Mr GREEN - The first thing at hand with respect to management is managing you and the way that you conduct yourself in this debate. Let me give you an example of that. When I picked up the *Examiner* this morning you have already made your position very clear from a policy point of view, pre-empting the negotiations with the statement of principles.

Mr GUTWEIN - You don't think there should be a triple-bottom-line assessment?

Mr GREEN - You've had your go.

Mr GUTWEIN - Well, answer the question.

Mr GREEN - What you have said is that you are announcing a policy today that confirms that you believe that 150 000 cubic metres leave the industry as a result of their transition - and I think you were referring specifically to Gunns, if the article I read is correct. What you're doing -

Mr GUTWEIN - Which is what your managing director just said.

Mr GREEN - Hang on a minute - you wanted colour and movement. Mr Chairman, I'm trying to answer a question here and he keeps interrupting.

Mr GUTWEIN - Make your point.

CHAIR - Let the minister answer the question, please.

Mr GREEN - The point is this: you have already pre-empted the negotiations; you've told those thousands of people that you just referred to in your policy position that they are finished. That is what you've said to them, without any thought of the principles being established as part of the negotiations. You have told them, 'Our policy is straight up and down, it is to end 150 000 cubic metres just like that' -

Mr GUTWEIN - No, it's not. That is absolute rubbish.

Mr GREEN - Yes, it is; that is what it says in the paper today. Oh well, I will wait and hear what your Leader has to say today.

Mr GUTWEIN - I think you should.

Mr GREEN - You have pre-empted the negotiations and then you have the cheek to come in here and ask me a question about what a reduction might be when your policy is already to reduce it.

Mr GUTWEIN - The managing director has just said that there will be a 50 per cent reduction in the crown sawlog allocation - that is FT's view.

Mr GREEN - No.

Mr GUTWEIN - Now everybody knows that Gunns cuts about that amount and they have already announced that they're going to exit that sector.

Mr GREEN - It is 180 actually.

Mr GUTWEIN - So what does it mean to jobs? Why don't you get onto that?

Mr GREEN - Don't you feel slightly silly that you have announced your policy with exactly that and now you're trying to put me under pressure about the same answer? That is just a ridiculous scenario. If you can't see that, that is why -

Mr GUTWEIN - It has already been announced. Come on, Minister, you're better than this.

Mr GREEN - I am.

CHAIR - Mr Gutwein, could you let the minister answer the question, please.

Mr GUTWEIN - Answer the question.

Mr GREEN - I am answering the question. This is complex and that is why the industry -

Mr GUTWEIN - It's not that complex for somebody who's going to lose their job.

Mr GREEN - It's not that complex for you, obviously, because you have just made your mind up. You have adapted the policy straightaway; you have not thought your way through it at all.

Mr GUTWEIN - We have said that there needs to be a triple-bottom-line assessment.

Mr GREEN - What you are trying to do is just put the political -

Mr GUTWEIN - Mr Chair, he's verballing me and he's making things up.

Mr GREEN - What your party is trying to do -

Mr SHELTON - Is show some leadership.

Mr GREEN - Oh, so it's about showing leadership now? The shadow minister says your party is showing leadership. I don't think so.

Mr GUTWEIN - What have you done?

Mr GREEN - What you have done is pre-empted the discussions and negotiations. You have no idea what the outcome is likely to be because you weren't even participating in the discussions in the first place.

Mr GUTWEIN - We have just had it confirmed by the bloke who sits along from you.

Mr GREEN - We have a set of principles that have come forward and they include a wide range of matters that include a pulp mill being built in Tasmania and, effectively, a tick-off from the ENGOs on that matter as an important part of the principles going forward.

Mr GUTWEIN - Do you have that tick-off?

Mr GREEN - We will build a forest industry around a process -

Mr GUTWEIN - You have that tick-off?

Mr GREEN - If you read the principles, it says a downstream processing mill is to built in Tasmania. It is not specific as to where it is, I know all that, but it says it will be built. So it is early stages and then, as part of that -

Mr GUTWEIN - Farcical.

Mr GREEN - It is not farcical.

Mr GUTWEIN - You are farcical.

CHAIR - Mr Booth.

Mr GREEN - I did not conclude.

CHAIR - Sorry, Minister, if you have anything further to say.

Mr GREEN - If he had not kept interrupting me I was going to say that part of that is ensuring we had that downstream processing. Part of it is the contractual arrangements that exist

with peelers and part of it, from the Government's point of view, is to make sure that family-owned sawmills continue to operate in the future. Yes, there will be some structural adjustment required. That is why it is important to have a governance model in place that incorporates the Commonwealth and the State so that we can coordinate that in the best possible way to ensure that we get an industry that we can go forward with together.

Mr GUTWEIN - Chair, he has not answered the question that I asked which was specifically that if there are 2 600 jobs in the native forest sector supporting around 8 000 jobs in the broader community, how many will go, especially when your managing director has just said that there will be a 50 per cent reduction?

Mr GREEN - How many are going under your policy?

Mr GUTWEIN - So what will happen?

CHAIR - Mr Gutwein, the minister can answer in any way he likes.

Mr GUTWEIN - But he is verballing me and not answering the question.

Mr GREEN - Is the *Examiner* incorrect?

Mr GUTWEIN - I have not read the article in the *Examiner*.

Mr GREEN - You are joking?

Mr GUTWEIN - No, but I have the policy here, which I am more than happy to chat about.

Mr GREEN - Are you? When you get your next opportunity.

Mr GUTWEIN - The first thing was a full triple bottom line assessment of what is going on, which is the first thing that should be done.

Mr BOOTH - I refer to the guidelines for Tasmanian government businesses, government directions - basically the Treasurer's instructions. Under the dividend policy it says, 'During the corporate planning process, each government business will agree on an appropriate dividend with shareholding ministers. The Government preference is to maintain a reasonably stable stream of dividends and for profits to be distributed as cash rather be retained as equity'. Can you tell us what discussions you have had with regard to that with FT? What is the stream of dividends likely to be and when are we going to see some profits distributed as cash out of this organisation?

Mr GREEN - I will hand over to the chairman and let the chairman -

Mr BOOTH - No, I asked you what discussion you have had because it says the shareholding minister will discuss it.

Mr GREEN - The chair and the CEO have reported to me the outcome of this year's financial operations. As the chair indicated, this is the first year that Forestry Tasmania has made a loss and therefore there are no dividends.

Mr BOOTH - So you agreed that was an appropriate dividend, to get no dividend?

Mr GREEN - In the circumstances, it is a simple fact based on what has happened over recent times, particularly with respect to the downturn in the industry.

Mr BOOTH - Given the Government preference is to maintain a reasonably stable stream of dividends, how do you propose to do that given the underlying factors that have caused the final losses this year that have been reported?

Mr GREEN - As indicated, in fact the demand is extremely high at the moment and there was an expectation on the back of that that it will return a profit. But overarching that are the negotiations that are taking place and the set of principles that have been put to us by the ENGOS, the industry and the unions. So there is likely to be change and that will require us to work our way through a range of issues with Forestry Tasmania. I know you understand that because, at a political level, you have in fact signed off on that process and the governance model that has been established. So I know that you understand that personally. Of course there is likely to be a different regime going forward for Forestry Tasmania that I have an expectation they will work within and do their best to deliver an outcome that we require under the GBE act.

[9.45 a.m.]

Mr BOOTH *interjecting.*

CHAIR - Mr Booth, I have just allocated three questions to you. I am going to keep rotating this through.

Mr WIGHTMAN - Could you tell the committee what work Forestry Tasmania is undertaking through its carbon research program, and provide information on forest carbon stores?

Mr GREEN - Bob has briefed me extensively about this program with respect to the tower being built that will allow us to understand exactly what sort of carbon retention old forests have, and to work through those technical issues thoroughly.

Mr GORDON - Dr Drielsma is one of our experts on carbon, and he will run through the carbon flux tower and other research we are doing.

Dr DRIELSMA - We have established quite an extensive carbon research program. We appointed a scientist specifically for that task two years ago. We brought him back from Canada. He was actually trained here in Tasmania but has spent time working with the Canadian Forest Service on carbon-related projects. He has come back and we have slowly established quite an extensive carbon research program in cooperation with the CRC for Forestry, the University of Tasmania and a number of other universities around Australia and other forest services, and also in collaboration with the Canadian Forest Service. So there are a number of projects going forward and a number of outputs are starting to emerge. One of the really significant things we have been able to establish is funding through the Terrestrial Ecosystem Research Network for the establishment of a flux tower down in the southern forests. This tower will measure the fluxes of carbon dioxide in the atmosphere, and various parameters in the atmosphere, which essentially will be able to measure the forest's breathing, as it were. It measures the difference between the carbon that is being accumulated and given off through respiration and decay on the forest floor and through that process build up an idea of how carbon dynamics are working in the forest. We will establish that in an older mature forest. Over time we hope to transition into a regenerating

forest and start to see the dynamics over time. This flux tower will be part of a national and international network. There are other towers being established in other parts of Australia in different ecosystems, so you can see that we are sort of central, I suppose, to an emerging carbon research program that will give us a much better handle on just what role our forests play in the whole carbon cycle.

Mr GORDON - I probably should just point out that we have given a full briefing to Minister McKim on this flux tower and the carbon research work we are doing to make sure it can be integrated with the Government's other work on carbon that is run by various government departments.

Mr SHELTON - I would like to investigate where Forestry Tasmania and Mr Gordon are regarding participation in the round table discussions. How much input did Forestry Tasmania have into that round table process and in what way, how many meetings and so forth? You have already stated that Forestry Tasmania supports the statement of principles, and there is a part in the principles about the phase-out, about the transition from native forests. So how many meetings and so forth and what input did Forestry Tasmania have? Then the second part of the question is around the native forest issue and that phase-out.

Mr GREEN - Obviously Bob Gordon participated in discussions, not directly a round table but providing information and expertise to allow the participants of the round table to understand the impact say of setting aside, as part of the moratorium that might exist, the 39 coupes and what the resource profile would look like beyond that and the issues associated with that in the short-term, given that within 30 days of the process starting that moratorium will exist. So matters associated with that included discussions trying to understand exactly what the position was, for example, from the ENGOs, what the position was from the industry with respect to their future requirements and how that could be facilitated over a period of time.

What I would say to you is do not forget that as part of the principles the contractual obligations need to be met and that is an agreed position. It means native forests are part of the equation within the principles, particularly with respect to the Ta Ann mills and as a result of that ongoing operations will exist.

Bob might want to expand on that but effectively that is the role he has played and Forestry Tasmania, as the Chairman indicated, are not a signature to the round table. Their expertise and the expertise of Forestry Tasmania generally, the people involved in managing our forests, day in day out, have been called on with respect to these matters. As I have indicated in the past, I have met with a group of people who were employed by Forestry Tasmania who wanted me to understand how important their ongoing involvement is, from the point of view of the structure that has been established, working groups et cetera, which will provide expert input into the final decision around how this agreement might look in the future. I have listened to what they have had to say and I have indicated to them that I am looking for ways for them to participate because we do value their expertise highly. So Bob I am not sure whether you want to expand on what I have said so far, but effectively that is the process.

Mr GUTWEIN - Can you give us an update on where the contractual negotiations are at?

Mr GREEN - After Bob answers this.

Mr GORDON - I think we might have met you twice?

Mr SHELTON - Yes, in briefings.

Mr GORDON - Giving briefings on the maps on the potential resource implications depending upon where you put lines on maps. We had a similar process with our sawmill customers and we had a similar process with the ENGOs and in general those meetings were not everyone round the table. We gave you a briefing with one of your advisers. I do not know how many times we had a combination of Wilderness Society, Environment Tasmania and ACF in, it is probably dozens where we went through and they asked questions like if this was the line what would be the effect on sawlog volumes, what would be the effect on something else. The sawmill group did a similar thing and because at various stages some of the parties were not fully engaged with each other we ran those resource scenarios, at the request of different groups, independently. So we were acting as, if you like, the honest broker resource number cruncher so that people could better understand the potential implications of various lines on maps. I suppose that went over a period of three or four months.

We were also asked other questions about various different silvicultural options for managing the forests. You probably saw in the media that Peter Downey got an FSC certification by adopting the regimes we developed for high altitude delicatensis forests. I think I provided our technical silvicultural manuals to a couple of the ENGO groups and to some of the sawmillers as well to show that a whole lot of things are possible if you look at things differently. For example, up near where Mr Booth lives at Meander, in the 1970s and 1980s some of the higher altitude forest was clear-felled and burnt. Looking back at it that was probably not the best regime.

Mr BOOTH - That is a polite way of describing it, Bob.

Laughter.

Mr GORDON - You have now got even 20-year-old forest that is growing well but I think that over time you could convert that forest back to uneven age management by using different silvicultural techniques. When you do that you get quite different wood flows than if you go back to traditional clear-fell-burn silviculture. Some of these questions about different ways of managing forests were also explored during those discussions and again we have done some work on both different plantation management and thinning, even aged forests have a different wood flow profile and a different impact on community values than clear-felling. So we explored a whole lot of those issues as well. I have in my diary all the times I met different groups, but it was quite a few times.

Mr SHELTON - I appreciate that. I highlight the fact that I was at a TCA conference in Launceston where you spoke and my understanding is that you basically put the yes case for the statement of principles agreement. It worries me a little that anybody from FT was actually doing that in the sense that the statement of principles had not been signed and therefore anybody putting a case one way or the other, particularly from the department that controls forestry -

Mr GORDON - It is not a department.

Mr SHELTON - Forestry Tasmania, a GBE. But then, of course, the second part of my original question was about the statement of principles where it talks about phasing out of native forests.

Mr GORDON - It does not quite say that.

Mr SHELTON - We have talked for the first half-hour this morning on plantations and how they are developing and so forth. And you have mentioned that in other countries they are going down this path but you also made the point that there were a lot of issues with our plantation development here in this State. There are a lot of unknowns at the moment, and a lot of science is still needed, as well as a lot of time and experimentation. There are no guarantees at this time that the plantation base that we have in our State can actually take over from native forests. The question is: does FT support the phasing out of logging native forest in Tasmania?

Mr GREEN - What I am not going to do, and what none of us on this side of the table is going to do, is pre-empt the final outcome of the statement of principles and discussions that have taken place. I have been very cautious right the way through this process despite your best efforts to start to pre-empt the discussions. You have made a decision as a party that you will do that and you have put forward, or are going to put forward, a policy. I have the *Examiner* article here if you want to -

Mr GUTWEIN - I have the policy here. In fact, I think that you are wrong in what you are saying. The first thing we said was that it needed to be a triple bottom line assessment and if there were to be up to 150 000 hectares of high-conservation-value forest phased out then it should be based on that triple bottom line assessment. That is what our policy is.

Mr GREEN - I will read it:

'The Tasmanian Liberals want to preserve 150 000 hectares of high-conservation value forests in the Styx, Weld Valley and the Florentine.'

Mr SHELTON - You know, Minister, that the press do not always get it right.

Mr GUTWEIN - I have the policy here and I am happy to give you a copy if you like.

Mr GREEN - There is your answer.

Mr BOOTH - Minister, just getting back to the guidelines for Tasmanian businesses, and the fact that you will not be able to get a dividend out of Forestry from this last financial year. I am very concerned about the solvency of the operation into the future. I would like to put it to you that without the letter of comfort from the Treasurer then FT would have been insolvent. Is that correct?

[10.00 a.m.]

Mr GREEN - No.

Mr KLOEDEN - On the question of dividends, we have paid \$111 million in dividends since we were corporatised, so there have been substantial dividends paid. It is not an exceptional matter in the commercial world -

Mr BOOTH - Can you net that from government subsidies?

Mr KLOEDEN - You asked a question about dividends. It is not exceptional -

Mr BOOTH - Yes, but I asked you then if you could net that against subsidies because I didn't ask you about historic dividends. What I asked you about was this year and into the future.

Mr GREEN - He is just giving you some context around your question about there being no dividend this year. It is in the annual report anyway. He is upfront and said that it is for the first time ever, but he is just putting some context around it.

Mr KLOEDEN - I will go to the issue of solvency. From receipt of that letter of comfort to the next step of insolvency is by no means a direct path, so there is no direct implication that Forestry Tasmania would have been insolvent without that letter of comfort.

Mr BOOTH - So why did you need the letter of comfort? Why did you request it and who requested that you provide it?

Mr KLOEDEN - Those kinds of letters of comfort are typically sought in those circumstances at the time of an annual audit. Auditors seek those kinds of letters because they need to dot a lot of i's and cross a lot of t's, but there is no link to the next step.

Mr BOOTH - No, what I am saying is that technically without that letter of comfort you wouldn't have been able to prove that you could meet your debt covenants.

Mr KLOEDEN - There is an underlying assumption there that without the letter of comfort there would be a recall of the loans.

Mr BOOTH - No, what I asked you was whether you would be technically insolvent, not whether in fact that would trigger a recall of the loan, but whether you would technically then be insolvent because you would be in breach of your loan covenants.

Mr KLOEDEN - The answer is no.

Mr BOOTH - So who asked you for the letter of comfort? On whose behalf was it sought? What loan was it given against?

Mr KLOEDEN - We have lines with Tascorp, so it is in relation to those lines. The borrowings are noted in the annual report.

Mr BOOTH - So was it requested by Tascorp? Where did the request come from for the letter of comfort?

Mr KLOEDEN - I can't recall the detail of that, but those letters of comfort are not unusual at audit time if there has been a breach. It's not a specific Forestry Tasmania thing, it happens in all corporations.

Ms WHITE - I want to raise the issue of regeneration burns. I come from the bush myself and I understand how important it is to make sure you are safe in that environment. Forestry Tasmania gets a lot of criticism from people who claim to suffer from smoke - down the Huon, for instance, last year there was a lot of public outcry. Does FT take responsibility for those sorts of burns, particularly the one in the Huon?

Mr GORDON - If we go back about two years, Forestry Tasmania adopted a new approach to giving notice, reporting on and recording smoke levels. We have our own independent particulate matter monitoring stations in the Huon and we did that before the rest of the forest industry decided to come on board with that. So we have had a history of planning our regeneration burns to both ensure the regeneration success of the forest by getting a good, hot burn that sterilises the soil and gives us a good seed bed, and also making sure that we carefully plan with available meteorological and weather data where the likely dispersal of smoke will be.

We did a lot of regeneration burns in the summer just past and the only major issue with our burns was in the Huon, where we did accept that we had contributed to the exceedence of the particulate matter guidelines set by the Department of Environment. We also noted that several days, including, I think, a month following our burn, when we weren't doing any burning, there were many exceedences of the smoke which were nothing to do with our burning. It was basically farmers, orchardists and people who own vineyards doing low-level, what we call 'cool burns' that have lots of smoke and that stays in the valley. One of the things that came out of that was that all the planning and monitoring work had been done on high-intensity regeneration burns but had not taken into account the hundreds and hundreds of burns that were being done by farmers and landowners at the same time, generally with nowhere near the level of sophistication of planning that is carried out with our burns. I think it was three years ago we were criticised by a couple of people in the Hobart City Council for smoking out Hobart. But as it happened, we had photographs of the fuel reduction burn done by the Hobart City Council on the Domain which clearly showed that the source of smoke was the Hobart City Council and Forestry Tasmania was not burning that day as well.

So, sometimes it is a bit like 'If there is smoke, blame Forestry Tasmania'. There is a lot of that around. What we think -

Mr GREEN - Remember that time when the fog was rolling up the Tamar?

Mr GORDON - Yes, and there was also an incident at Launceston Airport where again we were criticised in the Legislative Council for smoking out Launceston Airport. We have regular satellite images of all our burns on a more-than-daily basis. We had two burns in the north-east both of which were heading in an easterly direction over the coast and the burn that smoked out Launceston Airport was caused by the farmer next to the airport who was burning all his gorse. Again, I think all the media blamed Forestry Tasmania for about two days for smoking out the Launceston Airport. We were nowhere near it.

One of the things we think we need to do is get a much more proactive approach about this. We have been working really closely with the Tasmania Fire Service and the National Parks and Wildlife Service. Mr Shelton raised earlier in the year the fuel reduction burning program and we have a very active program with Parks. I think you have probably noticed it every day or two we have been announcing with Parks and the Fire Service fuel reduction burns throughout the State to try to make sure that we do not get a repeat of the sort of problems they had in Victoria where they had no areas of low fuel levels that gave you a chance to control a major wild fire in mild conditions at night. But one of the things that is not covered by that is in general the burning of particularly orchard waste, vineyard waste and agricultural waste on private property. One of the opportunities there is if we can get a biomass plant, then it could pick up a lot of that waste that is currently burnt at a cost to the farmer and generally to the community in low-level smoke.

Mr BOOTH - Do you think there should be a reporting of all burns then, under that community smoke management strategy? All burners should report to them and not just Forestry?

Mr GORDON - I think it would assist because again in the north-east we have done some major burns in the last three months with large private landowners. To go back 20 years they had maybe 50 employees on their farm doing various stuff so when they wanted to do a burn everyone got a drip torch and went and did it but they might have five employees now. One of the things we have done is with strategic fuel reduction burning if there are large areas where the fuel has been reduced and the fire does not differentiate between land tenure so, with a couple of those large landowners, we have actually burnt the sides of valleys at a mild fire to reduce the fuels. Most of those farmers no longer have the capacity to do their own burning and they are all being done by Forestry, Parks and the Fire Service where they have available resources and generally it has been Forestry Tasmania with the Fire Service.

I think Mr Booth's question about getting much more proactive with landowners is a really good one. If you look at the history of wild fires in Tasmania, the vast majority of them are arson. The next biggest source is escapes from private property burn-offs that have been done not in any malicious way by the farmers generally but they did not have the resources to control it or they did not have sufficient knowledge of the likely fire behaviour based on moisture-content of the fuels, dryness of the surrounding land and dryness of the soils. Often it would be a much better outcome for the community either to harness those fuel sources by putting them into a renewable energy power station and I have said we are happy to work through the principles in terms of plantation biomass and other options for the native forest, but a lot of the waste that was being burnt in the Huon on the days there were problems was from orchards where they had pulled out trees and burnt them, or the prunings, or the vineyard prunings, or a whole range of those sorts of agricultural sources of smoke which in my view could have been handled a lot better than it was. You get the same issue in the Tamar Valley. On the same couple of days you often get all the vineyards burning their canes, or again with the orchards doing the same thing, or farmers burning off stubble. There are much more efficient ways to do that.

Mr SHELTON - Just to continue that line of questioning a little more about fuel reduction burns, of course Forestry Tasmania controls about 1.5 million hectares. You have mentioned Parks. They control about 1.4 or 1.3 million hectares, and both of you have only burnt in the past less than 1 per cent per annum. The Victorian Bushfire Royal Commission indicated that 5 per cent was the preferred figure. Has Forestry Tasmania's policy changed along that line? Where are you moving to? You have mentioned that you have a process there that is actually burning more, but is it enough? Where are you headed with a target of hectares to be burnt per annum?

Mr GORDON - I think we would already have achieved a lot more than 1 per cent this year. One of the challenges with the Victorian Bushfire Royal Commission was, I think, setting arbitrary targets of area, and they only talked about burning on public land, which I think was a mistake. The point I made before in response to Mr Booth's questions was that you need to have strategic zones where you have burnt. It is not much good, in my view, just burning all the buttongrass all the time. It is easy to burn, it will burn most of the time, but it is not going to contribute significantly to the control of wildfire in the future in the areas where it is likely to be. To do that you need to have a much more strategic approach to fuel reduction burning, and the minister and the two other ministers involved have asked Forestry Tasmania, the Fire Service and Parks to come back with a proposal to Cabinet to look at how we might do that significant

increase in strategic fuel reduction burning, at the same time making sure that we continue to do the work on monitoring the environmental and ecological effects of frequent burning.

There has been a whole lot of work done on that by us and the university's researchers, and by the Bushfire Cooperative Research Centre, which was one of the main contributors to the database for the Victorian Bushfire Royal Commission, which we are a member of, by the way, with Parks and the Fire Service. So I agree with your point that there needs to be more fuel reduction burning done, in my view, but we have to do it the right way. It would be easy to meet artificial area targets but we need to be strategic and do the burning which is sometimes more difficult in the areas where you need to have the low fuels, for example in the Douglas-Apsley National Park. We burnt that with Parks I think three years ago - it might have been two-and-a-half years ago - because some of the species were dying out because they were fire-dependent, reasonably regular fire-frequency species. It had to be done over a three-year period, and we have done a whole lot of burning off the Lake Leake road, which is surrounding that, so that you have a large area where there are low fuel levels. If we get a repeat of the Scamander and Beaumaris fires again, you either have the sea on one side or you have a large area that has been fuel-reduced burnt on the other.

[10.15 a.m.]

It is no good having breaks the width of this room. You need hundreds of hectares at a time, so that if you get the chance when the fire gets to that reduced fuel it goes from a crown fire to a ground fire, and if you can get that in the early morning or night when you have high relative humidity, then you have a chance of bringing the fires under control. If you do not have those large strategically-done areas as well as strategic areas around townships, then the weather conditions they got in Victoria still could happen in Tasmania, and if you have not reduced the fuel there is nothing you can do. So it is a major priority issue for the three fire managers. One of the things that came out of the Victorian royal commission was criticism of the lack of coordination in the firefighting effort in Victoria. That is not the case in Tasmania. Any of our officers who are incident controllers are interchangeable with Parks. With the Fire Service we do incident control training together. Minister, we have a joint exercise, I think next week, looking at what would happen with us, the Fire Service, Parks and the police department if there was another major fire in Tasmania and how the coordination would work - a full trial of incident management control, bringing in other people and looking at communications. I think there have been a couple trials of the SMS warning system. But I think you are right, Mr Shelton, it is an area where we need a lot more work and, in my view, more funding.

Mr GUTWEIN - I want to come back to a comment that the minister made before and that was in regard to not pre-empting the outcome of the discussions that are going on. Would you agree that the outcome of these discussions will more than likely have social, economic and environmental impacts? In the interests, as you have said early this morning, of managing the anxiety levels in the community, will you commit to a triple-bottom-line assessment of whatever comes out the other end of those forestry talks so that the broader community can be satisfied that there has been a thorough assessment done of any deal that is arrived at?

Mr GREEN - Obviously it would be easy to put your head in the sand on this issue and, at least from the point of view of your contribution as a party today, you have indicated that, in essence, you agree that there needs to be a change within the forest industry in Tasmania. If you have a look at the structure of the governance model that we are putting in place, you will notice that as a result of that an enormous amount of expertise is brought to bear at the lower levels feeding into the signatories to the agreement with respect to all the matters associated with any

decision that is made on a final agreement on the principles. That is, that assessments, scientific and otherwise, are done on the high-conservation-value forests, the social ramifications of change -

Mr GUTWEIN - Who is doing those assessments?

Mr GREEN - As part of the process there are regulatory and policy working groups, advisory technical and working groups, the Tasmanian Government through the department -

Mr GUTWEIN - Well, you are hardly independent, so I am asking if there will be an independent triple bottom line assessment for any decisions that come out the end of it?

Mr GREEN - The expert panel and the signatories to the agreement who will effectively be putting the position to the Government are completely independent. What we are saying is that we are feeding into that process the necessary expertise to allow it all to come together.

Mr GUTWEIN - So who is going to do the assessment? Is it just going to be government?

Mr GREEN - It is a process, a governance model.

Mr GUTWEIN - I think it is a reasonable question to ask.

Mr GREEN - Again you are suggesting, as I have indicated to the committee earlier, that you know the outcome of the discussions.

Mr GUTWEIN - No, what we have said is that there needs to be a triple bottom line assessment.

Mr GREEN - What I am saying to you is that we are setting up a governance model that has been ticked off at a political level by ourselves and the Greens. We are -

Mr GUTWEIN - That hardly fills me with confidence.

Mr GREEN - We are the Government of Tasmania at the moment and the Government has ticked off on the governance model that has been established. We are working with the Commonwealth to establish that and the process itself will make assessments as to the impact of any decisions that are made as part of the agreement.

Mr GUTWEIN - So who is doing the social and economic assessment?

Mr GREEN - As I have just indicated we have expertise, working groups from a number of areas and including some feed-in from government departments.

Mr GUTWEIN - Can you name who is going to be feeding in information?

Mr GREEN - I am not going to be naming any individuals who might make up part of the group other than to say that there has been a subcommittee of Cabinet formed which includes the Premier of Tasmania, the Leader of the Tasmanian Greens and me who will be working our way through ensuring that the principles are put in place.

Mr GUTWEIN - So you have a secret assessment going on, is that what you are telling us? I am simply asking who is going to do the assessment?

Mr GREEN - What I am saying to you is that this is completely open and transparent. The Premier will be responsible for the instruments of appointment to the group. That has been agreed by the ENGOs, the industry and the unions and agreed at a political level. That is exactly what happened. There will be formal instruments of appointment put in place. Our expectation is this will be an extremely transparent process.

Mr GUTWEIN - Will there be an independent triple bottom line assessment done?

Mr GREEN - The signatories are FIAT, TCA, NAFI, TFCA, TCS, AFCA, CFMEU, ET, TWS and ACF. They are all independent of government; they will be the ones that in the end are conducting negotiations, with the assistance -

Mr GUTWEIN - Minister, who will assess it? They are hardly in a position where they can provide independent economic, social and environmental advice; all of them have a particular interest that they are attempting to represent. Will you commit to an independent triple bottom line assessment? It is a fairly simple question and I think it is something that would go a long way towards removing some of the anxiety that is out there in the community.

Mr GREEN - In the end, the Government will look at the positions brought forward to us in the form of an agreed position and we will make our mind up as to whether we support that position.

Mr BOOTH - I want to drill back down to the potential for the company to have been trading when insolvent. I note that note 24 concerning interest bearing liabilities says of \$40.8 million in total, \$19.8 million of that was current, which means repayable within 12 months and is currently unsecured. Was that the loan that was secured by letter of comfort?

Dr DRIELSMA - As part of the agreement we have with Tascorp our borrowings are an overnight facility and that would form a significant part of those short-term borrowings.

Mr BOOTH - Can you table those details if I put that on notice?

Mr GORDON - He is asking about the breakdown of the length of the loan periods. We have a series of loans that have different renewal and expiry dates for which we pay different rates, so we manage the interest margin. Mr Booth just asked if he could put that on notice. I think that would be the best approach.

Chair, I just wanted to correct something that Mr Gutwein raised. When I was asked a question about the volumes that might be available, I prefaced that by saying we have done a whole lot of what we call 'what-ifs'. So if the map was this then the volume is this. If the map is that then the volume is something else. My comment, I think in answer to Ms White's question, was that if the map that was produced by the ENGOs was used as the map then the volume would be such and such. I am trying to pre-empt what the result would be because there are a lot of negotiations that have to go on.

Mr GUTWEIN - I thought you made that comment in the context of Gunns' decision to exit native forest.

Mr GORDON - No, the minister made the comment about Gunns exiting. I was answering Ms White's question about what the volume might be. What we have done is a whole series of 'if this area was not logged then the result would be this'. There is a whole range from 300 000 down to nothing depending on what they end up with in the negotiation.

Mr BOOTH - Given that note 24 in the accounts says that Forestry Tasmania is in breach of debt and capital covenants, I want to ask you, Mr Kloeden, a very direct question. Given that background and the Auditor-General's comments et cetera, without that letter of comfort could the directors have signed a solvency declaration? Without that letter could you have signed that declaration lawfully?

Mr KLOEDEN - We did not contemplate that matter because we had the letter of comfort -

Mr BOOTH - But without it?

Mr KLOEDEN - You raised the issue earlier of insolvency. The letter of comfort does not imply that there would have been insolvency in its absence. What happens in those circumstances is that there is an opportunity to renegotiate loan covenants. It is regularly done.

Mr BOOTH - Mr Kloeden, I am actually asking you whether you could have signed it without the letter of comfort or without doing something else, then renegotiating? At that point in time without that letter of comfort you could not have signed the solvency declaration, could you?

Mr KLOEDEN - What normally happens in those situations is that the loan agreement is renegotiated. We did not get to the point of considering the matter that you have raised because we had the letter of comfort. Now the absence of the letter of comfort does not automatically take you to the point you queried earlier of insolvency; it does not go directly to that point. It triggers a whole range of discussions and it is not unusual at all that in really difficult economic times loan covenants of all kinds are triggered because of the trading circumstances.

Mr BOOTH - That is why they make you sign a letter of solvency. So I am just wondering whether in fact you are able to?

Mr KLOEDEN - Those loan agreements and covenants have been in place since 2002-03 and that covenant that was breached was identified in 2009-10 for the prior financial year, but it actually had been in minor breach since 2006. So there was no act of insolvency in that period and, as I say, you do not automatically go to that point. A whole lot of other things happen first so we did not have to consider the matter you raised.

Mr BOOTH - If you look once again at what the Auditor-General had to say on page 41 in the statement of cash from operations, over four years your cash from operations has gone from a \$13 million surplus to a \$12 million deficit. The Auditor-General then commented on page 44 that 'it is not sustainable for Forestry to generate negative cash from its operating activities, a situation management and the board must address. Management are keenly aware of this position and monitoring operations closely. We are advised that management is developing longer term strategies to maintain the future cash flows'. What are they?

Mr KLOEDEN - If you take the underlying reason for negative cash in the last financial year it is very amply dealt with in the annual report. We had the most extraordinary trading

position that we have had for many years, probably for 40 to 50 years. When you go through those deep economic cycles you have to deal with them. Now you come out of those deep economic cycles so there is already a recovery of trading conditions.

Mr BOOTH - But not profitability.

Mr KLOEDEN - There has been a recovery of profitability through the last six or so months. We are operating in a much improved position now. Everybody is familiar with the percentage cutback in revenues that we suffered. The managing director dealt with that earlier. If those conditions continue for some years then clearly not only we but also the contractor workforce and the whole of the industry are in very big trouble. So that situation has not persisted; it has turned around. We now have our contractor forces operating at 100 per cent of capacity so that is a significant turnaround.

Mr BOOTH - On public subsidies. That is not sustainable because it is not underpinned by a profit on trading. That is the problem you have.

Mr KLOEDEN - It is actually underpinned by demand.

Mr BOOTH - It is supported by public subsidy.

Mr GREEN - It had been earlier.

Mr KLOEDEN - It had been earlier, but the fundamental driver of cash flow is revenues and sales.

The committee suspended from 10.30 a.m. to 10.42 a.m.

CHAIR - Before we commence, I need to let the committee know that Mr Gutwein has now taken the position instead of Mr Hidding, not a substitute but as a member of the committee. Mr Hidding has gone home unwell. So Mr Gutwein is now a formal member of the committee.

Mr GREEN - He looked all right to me.

CHAIR - You were not here yesterday afternoon.

Mr Wightman - He was not.

CHAIR - We will resume the rotation and Mr Wightman or Ms White.

Mr BOOTH - We were digging down into the operational cash flows and you suggested that the industry had turned around, so what are your forward cash flow projections for the next four years? Do you have a cash flow projection and operational budget for the next four years in terms of where your revenue will come from?

Mr KLOEDEN - As any GBE, we have core planning to submit to the minister; the minister approves it and that includes profits and cash flows and balance sheet.

Mr BOOTH - So what products will you make cash flow out of over the next four years?

Mr KLOEDEN - We make cash flows with a lot of our products. Not out of all of our services because we provide CSOs - so we have products and we have services.

Mr BOOTH - Yes, and I asked you about the products.

Mr KLOEDEN - We generate cash inflow through the revenues of the sales of those products.

Mr BOOTH - Can you give us a sectoral breakdown on what you are anticipating will be your cash flow sources over the next four years because you have MIS income which has gone, you have sales of native forest woodchips which I think you are down to selling the timber for 50 cents a ton at the moment - stumpage? What price are you selling it for?

Mr KLOEDEN - Our contractual price for customers is not a matter for this discussion.

Mr BOOTH - So you are not denying that you selling it as low as 50 cents or less?

Mr KLOEDEN - No, I am not denying that I have killed anyone recently either.

Mr BOOTH - I did not ask you that. I would not have thought you would have done.

Mr GREEN - Well, you have put these outlandish figures out there -

Laughter.

Mr BOOTH - So the MIS schemes have gone. Your native forest woodchip sales are down to the point where you are unable to make your debt covenants because that has been part of your revenue income, so with MIS with sales of stumpage and all of your other activities you are still unable to meet the debt covenant.

[10.45 a.m.]

Mr KLOEDEN - Can I just correct an impression you have just given? I think you said that our woodchip sales are down so we cannot meet our payment, is that what you said?

Mr BOOTH - Yes, value from them.

Mr KLOEDEN - That is incorrect.

Mr BOOTH - Give us a sectoral breakdown, please.

Mr KLOEDEN - No. Can I answer that point? The point that was made was that our woodchip sales were down to the point where we cannot meet our payments. That is entirely untrue and just to go to that point that you raised earlier, because it lies behind this, Forestry Tasmania is not and was not insolvent - is not now, was not. I informed the committee with a little more information that that particular covenant has been in technical breach since 2006. In 2006, 2007 and 2008 we were doing very well. There is no link of that technical covenant breach over that period of time to our sales and there certainly is no situation where we have failed to

make a payment at all. I really do need to put that to bed. That is a matter of confidence in the organisation. It is just plainly not right.

Mr BOOTH - Okay, so as to operational cash flows over the next four years, can you give us a sectoral background of where your positive cashflows will come from? What sectors will have a positive cashflow over the next four years?

Mr GREEN - If you had listened to what I had to say in my opening statement, you would know that obviously some changes are likely as a result of the principles that are on the table now and that we have effectively all signed up to -

Mr BOOTH - But, Minister -

Mr GREEN - Hang on, I am trying to put your question in context which might mean that there is some adjustment. Already the Auditor-General has been looking at issues associated with the valuation of the forests overall and a whole range of other issues particularly in relation to CSOs and how they have operated in the past. Overlying that and the whole debate at the moment is the fact that we have a set of principles in front of us that the Government is attending to which will have an effect.

Mr BOOTH - It has not stopped a tree being cut down yet, right?

Mr GREEN - I think that it is unreasonable -

Mr BOOTH - It has not stopped a tree being cut down yet and I am asking Forestry about what their current forward cashflow projections are in terms of operational cashflows, the point being that if you are saying there will be change then the question is just as valid because there are two scenarios. The first is no change, for which I am saying that the operational cashflows will not be positive and I have asked for a sectoral breakdown of that of the product stream. If in fact there is a change then obviously that will have an effect on the bottom line of FT. If they were losing money on product sales it might be a positive to them but if they were not losing money then it would obviously flow on to the solvency situation with the company. They have to have a positive cashflow. They are in a position now where their debtors have blown out. Their operational cashflows have not been meeting the current costs. They have been selling the car fleet off to rake in capital. Where are you going to get the cash from? As I said, the managed investment schemes have collapsed, the income flows from native forest logging are not sufficient to maintain the liquidity of the company in the long term, in my view, and that is what I am getting at. I want to see a sectoral breakdown of product flows and how the viability of the company will be maintained in the future?

Mr KLOEDEN - Chairman, I did indicate earlier that we have been in a once-in-a-multi-decade trading conditions downturn. We have been thinking about that and we are not sure whether it is 40 or 50 years but this is a once-or-twice-a-century downturn. I did indicate that just as markets turn down and hit the bottom, so they turn up and so cashflows and profitability are restored and that is exactly the situation that Forestry Tasmania finds itself in.

Mr BOOTH - They are the projections I am asking for. You are saying they are going to happen so can you give us a sectoral breakdown of your positive cashflows over the next four years?

Mr KLOEDEN - Can I make a general point? When the market is up here, it is a wrong concept to think it is going to be up here forever and to borrow money assuming you are going to get those cashflows. It is equally wrong when the market is down here to assume that is going to stay there forever because it is not. We are turning around and that is a month-by-month proposition. The minister is in receipt of our broad cashflow targets through our corporate plan and within each year when you go down like that and you come up like that through the year there are changes.

Mr BOOTH - Can you give us a sectoral breakdown of the product flows that are going to impact on your cashflow over the next four years, like how much are you expecting out of MIS, how much will be government subsidy, how much will be from different product sales, whether it be sawlog, pulpwood et cetera?

Mr GREEN - Why can't you get over the fact that we are actually in a position where it is very difficult for Forestry Tasmania to predict that, given the current prevailing circumstances?

Mr BOOTH - Yes, but I pointed out, Minister, there are two scenarios. There is the current one, which is a fairly recent manifestation, that the principals will not sign.

Mr GREEN - I am often accused of being old-style with respect to this debate but by pursuing this in the face of what you know are the present circumstances, with respect to the set of principles -

Mr BOOTH - No, Minister, no -

Mr GREEN - Let me finish.

Mr BOOTH - Well, do not drag this back to the principles.

Mr GREEN - it means that you are the only one arguing the old-style in this whole debate.

Mr BOOTH - No, let me finish. I am not at all, and I am not trying to reflect on the statement of principles. That is not what I am doing at all. I am actually interested in the financial viability of a very large government business enterprise. It is important to us here. That is what this Parliament is scrutinising. As an elected member, I have that duty, so I am just trying to get some straight answers so that I can understand whether this business is actually viable in the long term. I have my own private views on that, but there are some questions I need to ask that underlie the balance sheet, and one of them, for example, is the fact that you have unfunded superannuation liability that you have deferred. I want to talk about that. I also want to talk about the \$60 million that is owing still to the Community Forest Agreement funding. Can you tell us about that? How are you going to pay back that CFA funding, because you have used that to fund operational matters, haven't you?

CHAIR - Mr Booth, excuse me, you have moved off from the questions that you are asking. I will go around the table again, and then I will come back to you. Mr Wightman.

Mr WIGHTMAN - Thanks. I just want to talk a bit about diversification of operations and opportunities for cashflow around that, and particularly around last year when FT completed a master plan for the Tahune AirWalk. There were some options in that, whether it be a day visit or

overnight stay, and I am interested in talking about that diversification and how you have progressed that master plan to where we are now.

Mr GORDON - As you know, the Tahune AirWalk is one of the major attractions in southern Tasmania - in fact, one of the major attractions in Tasmania. It has won lots of awards. It has now been going for - I was going to say 10 years, but maybe that is not -

Mr BOOTH - It is close.

Mr GORDON - I reckon it is close to 10 years, and one of the things you have to do with tourism attractions is refresh them every now and again, so what we did was look at the major drivers of people going to the AirWalk, the unmet demands in that area, and we did it both in terms of the AirWalk and the broader Huon tourism precinct. We also looked at a staged approach where we could get in with relatively low capital entry to keep our exposure down, and one of the things that has come out of that is that there is an unmet demand in the Huon, particularly over the summer period, for accommodation. It is a substantial unmet demand and that becomes worse as you go through the summer into autumn when the fruit pickers basically take up all the cheaper accommodation in the area and tourists cannot get a bed in the Huon. The drivers of the tourism business are in getting people to stay another day - that is when everyone makes a bit more money.

That reminds me - I was going to correct Mr Gutwein. I am pretty sure there is not a butcher shop at Fingal and there has not been since I lived there in 1989. So you get the local people getting some income out of coffees and those sorts of things, and what we have committed to do at the Tahune AirWalk is put in some - I was going to say backpacker, but it is actually a bit better than backpacker-type accommodation - accommodation capacity down there so that we have the option of people staying the night. We are also looking at getting some independent operators to run their own businesses doing things like night tours.

We are very proud of the work that we have done at the Warra Long Term Ecological Research Projects and we get hundreds of scientists from all around the world looking at those every year. They have the same problem. It is an hour-and-three-quarters drive from Hobart to get out to the Warra Research site, it is an hour-and-three-quarters back again. It means they have very long days, so we are looking at that accommodation for science-based activities and tourism, tourist-based activities and also school groups. With the Forest Education Foundation's new National Forest Learning Centre based in our head office at Melville Street, we get heaps of school groups; probably a school group a day on average. Most of them want to look at some in-forest science. I am sure you are aware we are also looking at doing some Forest Education Foundation activities through the Axeman's Hall of Fame and a few other places where they have conference and other facilities already. Basically what we are looking at with this master plan is a staged introduction of new attractions of extra revenue activities. We are also looking at some new attractions at the Forest and Heritage Centre in Geeveston. We have a couple of concepts that we are working on, which again are very low capital entry, but have a bit of a wow factor which is what you need to attract new tourists, particularly to the Huon.

Ms WHITE - On that same tack about the diversification of operations, we spoke briefly before about value-adding product, are there any other opportunities that you are currently pursuing?

Mr GORDON - I brought a prop with me. It is a shirt I bought from Snowgum and there's a small prize if someone can guess what this shirt is made from?

Mr BOOTH - Rayon, which is made from wood fibre.

Mr GORDON - Right, you get a 'Going Bush' DVD, Mr Booth.

Laughter.

Mr BOOTH - Since I paid for it with my taxes, I suppose I might as well get something out of it.

Laughter.

Mr GORDON - There has been a lot of really good research and development done on using wood fibre for the manufacture of textiles.

Mr BOOTH - Years ago they used to make car bodies out of it, and out of hemp, plastics and so forth.

Mr GORDON - Yes, but I think for structural strength you probably need hemp for longer fibres.

Mr BOOTH - You could combine it.

Mr GORDON - You could, but this is almost certainly made out of eucalypt woodchips. Eucalypts have a higher beta cellulose content. You make pulp out of the woodchips. You generally want younger stuff with higher cellulose content, which you can breed and they have done it quite successfully in, particularly, India. The sort of range, other than my little shirt, of products that you make includes a whole range of textiles. There are some quite new sports-type rayon-derivative products that are also made from this type of material. You make pulp in a relatively standard way; it is an acid sulphite pulping process rather than a kraft pulping process. You then make what is called 'viscose', which is the liquid pulp and then extrude that and effectively what you're getting is -

Mr GREEN - \$69.95.

Mr GORDON - Well, I'm going to wear it.

CHAIR - How much a tonne is that?

Mr GORDON - That's a lot of money. If you look at pulp prices, standard kraft pulp might be trading for \$800 or \$900, viscose pulp is probably trading for \$1 500. It is quite small scale. Eucalyptus globulus happens to have one of the best chemical structures to make this sort of material. Mr Booth is right - you asked before about what you might do with the thinnings from these new radical lonely tree silviculture operations - it may very well go into products like this. The technology has been developed by the Scandinavians and the Germans. They used to be quite dirty mills, particularly in India and China, but a lot of them have shut down. The new technology that is being introduced is very clean. It is generally low scale so you don't have to

have very large mills, between 150 000-200 000 tonne type input. It offers substantial diversity for your products. I am keeping an eye on you, Chair, to make sure I get my shirt back.

[11.00 a.m.]

CHAIR - You will get it back, I am just reading the UV protection rating.

Mr GORDON - You can do a whole lot of things with wood fibres that we have not traditionally done and we are also doing some work on some other new products that we have developed. I will give this to Mr Booth, he is the timber expert. Do you know what sort of timber that is?

Mr BOOTH - It has been heavily varnished but it's probably a bit of nitens or something.

Mr GORDON - It is not actually solid timber, it is a laminated product that has been resawn to look like solid timber. In terms of strength ratings, if that was a piece of solid timber it might be 17 but that is probably a 34. All that has been produced from eucalypts that are less than 25 centimetres in diameter, it has been rotary-peeled and reengineered. I brought that just in case the meeting got rowdy.

Laughter.

Mr BOOTH - What it does is point out that you do not need old trees to get wide boards or structural product et cetera.

Mr GREEN - That is all true.

Mr GORDON - That is another piece of similar material again that is being produced as a flooring profile.

Ms WHITE - Where is it being produced?

Mr GORDON - We have been exporting the logs to China. We have been working with the Chinese manufacturers of the specialised technology equipment through these production scale trials and also to do the market development work. That material is ideally suited for very high-strength structural applications. It is perfectly suitable for decorative applications, door jambs, doors, tables, and it can be made in a way that you can give the grain any appearance you like. As you know, with Tasmanian eucalypts we need to quarter-saw, that is saw on the radius rather than the tangential direction, which means that with very small trees you mathematically cannot get very large boards. With this material, because you are using different technology, you can actually get the appearance of backsawn material without having to go through all the drying problems.

So to get back to Mr Booth's question about suitability of young eucalypts for some of these new products, because you are only drying material that is one or two millimetres thick, the drying process is so much easier and you don't have to worry about trying to overcome the technical problems with sawing and drying large end-section eucalypt. You can reconstitute the product to look a bit like the new one but you can engineer it using standard wood engineering techniques to produce basically whatever you want.

Mr GREEN - Can I ask a question without notice, Bob?

Mr GORDON - Yes.

Mr GREEN - What would be the cost of a board like this?

Mr GORDON - Can I take that on notice?

CHAIR - You certainly can. Is that wholesale or retail?

Mr GORDON - It is a completely different concept so if you were to saw a 19 mm board like this from a green tree then to get a board quarter-sawn that big you would need a tree at least 30 centimetres in diameter. You need to quarter-saw and without progressive kilns it would take about nine months to dry the material from 100 per cent moisture content.

Mr GREEN - Air-dried?

Mr GORDON - You would have to air-dry first and then finish with a kiln dry to get it down to about 10 per cent which makes it stable in air conditioning. The cost of holding that inventory is quite large for most timber processors. This was made the same day the logs were delivered, so you get logs in and the same day you get finished product out.

Ms WHITE - Can it be made from offcuts?

Mr GORDON - You can certainly make it from much smaller trees than traditional sawing techniques. In my view it will never replace tables like this. This is a designer product with very high labour and artistic input, but to go back to the point about what the future might look like, this happens to be non-eucalypt material but you could just as easily have made this table out of specialist eucalypt products like some of the high-altitude *delicatensis* which often has hobnail and other features in it which could be grown for almost specialist eucalypt timber production and the things that are straighter. They are not quite commodity but standard product ranges could be made from a range of different engineering-type applications to timber using technology, some of which FT have actually developed to do this.

CHAIR - I am going to move this along, Mr Shelton.

Mr SHELTON - That is a great lesson but we had better get back to work because that is what we are here for.

Mr WIGHTMAN - Chair, could I just -

CHAIR - You are certainly welcome to ask more questions but we have to keep it moving.

Mr KLOEDEN - Chair, can I add one remark to that?

CHAIR - Very quickly.

Mr KLOEDEN - It is not of the show-and-tell nature but it goes to the issue of future revenues and it goes to the role of Forestry Tasmania more than just in the here and now of delivering sawlogs. It goes to the issue of generating cash flow.

I have been on the Forestry Tasmania board for a long time and I was there at the beginning of the discussions the board had on Ta Ann and it took a very long time to get that product up, and you know the significance of the volume of Ta Ann; they held very steady during the downturn. What Bob has put on the table here are a number of prospects that when we arrive eight or 10 years down the track in this room we will be saying a very similar thing. It is a very important part of the role of Forestry Tasmania because there is not another organisation I know that would undertake that work to deliver low cash flows to Forestry Tasmania.

Mr BOOTH - Our forest transition strategy identified most of those things in 2002.

Mr SHELTON - On page 2 of the sustainability stewardship report it says that a total of 210 538 cubic metres of high-quality sawlogs were supplied to Forestry Tasmania customers and that this volume is well within the sustainable production level. Most of us were at dinner last night talking to the industry, which is very concerned at the moment of course about their future and where they are going with no clear direction at this time. So, Minister, I take you to the Premier's letter dated 8 October which refers to the correspondence from Forestry Tasmania to yourself regarding the extension of the timber supply contracts to 2027. Can you provide a copy of that letter to this committee?

Mr GREEN - The Premier's letter?

Mr SHELTON - The letter to you. I have a copy of the Premier's letter but the issue is the letter from FT to you and that information.

Mr GREEN - A letter from FT to me?

Mr SHELTON - Well, the Premier's letter says 'I sought advice from my colleague'.

Mr GREEN - Yes, that's right, on whether it is possible in that scenario to provide the volumes for those sawmills under the proposal that had been put forward by -

Mr SHELTON - To extend their contracts to 2027, yes.

Mr GREEN - No, let's not get too confused here. I think you are trying to confuse the question that was asked with the undertaking by the Premier to effectively ask for those negotiations to begin.

There have been discussions between parties on moving towards negotiations on the resource requirements for the future. We have made it very clear in the Parliament; the Premier has made it clear and I have made it clear and in fact the whole forest policy principles make it clear. That is where Mr Gutwein was perhaps on the wrong tangent in his questioning earlier today because all the issues are predicated on a plantation resource being available in the future to substitute for the existing sawn timber resource. This means that the people negotiating the principles understand the importance of a transition and the fact that it is not easy to simply replace the native forest regime with something else. There needs to be a lot of effort put into that. It is also explicit in the principles that 2027, particularly given the contracts that exist with Ta Ann, the veneer producers, remains intact. That is recognised by the parties around the table with respect to continuity of that supply.

Mr BOOTH - But they can move onto plantation too. There is nothing that requires native forest timber -

Mr GREEN - I am not going to cramp the negotiation. So we are honouring the Premier's letter with respect to the discussions. The discussions have started with FT. No formal negotiations have begun but certainly discussions around that have begun.

Mr SHELTON - But my question is specifically about extending that native forest resource to the existing contractors who are there now, the existing mills, to 2027 and the perceived undertaking from sections of the industry that the Government was going to commit to extend those contracts to 2027. I am asking whether you would table your letter which is referred to in the Premier's letter so that this committee has the ability to see that letter.

Mr GREEN - I do not think there is any issue -

Mr BOOTH - Do you want to see all the small mills go broke too?

Mr SHELTON - The reality is that the total volume of 200 000 cubic meters is sustainable.

Mr GREEN - We verbally sought advice from Forestry Tasmania and their advice came forward.

Mr SHELTON - Okay. In that letter does Forestry Tasmania possess an opinion that they could commence negotiations with the current contractor holders to extend the contract period up to 2027? It's in the third paragraph, middle of the page.

Mr GREEN - You already have it there. Why did you ask us for the letter if you already have it?

CHAIR - Sorry, Minister, he is referring to the letter from the Premier.

Mr GREEN - No, he is not. He is referring to the letter that he wanted me to give to the committee.

CHAIR - Okay.

Mr SHELTON - I would have been prepared to table it, Minister, if you were not.

Mr GREEN - I see.

Mr SHELTON - It is stated there that Forestry Tasmania would be in a position to commence negotiations with current contract holders to extend those contracts to a period up to 2027 on the terms and conditions agreed to.

Mr GREEN - That is right.

Mr SHELTON - That is the issue at the moment with the indecision. You have stated that this process has been put in place. There are people out there who have invested heavily in the industry and who want some security. They need that security to move forward. Mr Terry Edwards, to whom the Premier's letter went, indicated that as part of that process he took the letter

to say that, once the principles agreement had been signed, FT would start negotiations to extend those contracts.

Mr GREEN - I have just reported to the committee that discussions have started with Forestry Tasmania - not formal negotiations but certainly discussions.

Mr SHELTON - Discussions have started between you, the minister, and Forestry Tasmania, or Forestry Tasmania and their customers, the sawmillers, to extend those contracts?

Mr GREEN - Forestry Tasmania and their customers.

Mr SHELTON - So that process has started?

Mr GREEN - Yes. Discussions around the nature of the negotiations have started. The principles are intact from that point of view.

Mr SHELTON - Therefore that process and those negotiations are about extending the contracts to these people so that they have some security in the future up to 2027?

[11.15 a.m.]

Mr GREEN - The discussions that are taking place now are around future resource for the family-owned sawmills et cetera. If you had listened to what I had to say today, as part of that we need to work to secure the Triabunna mill as an important part of being able to ensure that those operations are viable in the future.

If I were you I would not be putting my head up in the way you are with respect to this discussion because it is so easy to kick off based on your own leadership, as you put it today. You are the only person in this room who has effectively pre-empted the discussions with respect to what the resource profile is going to look like in the future. I can see your fingerprints all over it.

Mr SHELTON - There is inertia there, Minister. There is nothing happening. I would assume that you will want these discussions to go on and send people broke.

Mr GREEN - The Government should not outsource the future of our State-owned resources to unelected groups of big business, big environment and big unions. I have heard you rabbiting on about that. If that is the way you think about the industry in Tasmania, if that is the way you think about the unions in Tasmania, if that is the way you think about the ENGOS in Tasmania, well that is up to you. You just want to bury your head in the sand and it is all going to go away. You do not consider the markets; you do not consider any of the issues that have driven us to this point. Your side of politics made a promise at the last election of \$20 million support for the contracting industry and that was before the principles had even been thought of. That should indicate to you that there were some issues with respect to the industry and that is why we are working through this process.

It is all right to shake your head in the back there but that is exactly the reason for it. If you want to be blind to that then that is up to you, but we are not going to put our head in the sand like that. We are going to work through these issues, day in, day out, to get a resolution that takes the industry forward. You say you are providing leadership. I think all you are trying to do is

provide a political wedge around a very sensitive issue because you cannot fulfil it. You are the only person in the room -

Mr ROCKLIFF *interjecting.*

Mr GREEN - It is no good your chiming in as you were not even here -

Mr ROCKLIFF - I was listening, though.

Mr GREEN - Mr Gutwein did not even know that there was an article in the paper. You are the only people who have conceded the resource in Tasmania. You are the ones who have conceded it and you are asking us for a triple bottom line. You are the ones who have conceded the resource.

Mr BOOTH - Thank you for that vintage display, Minister. I have not seen that for a while and it was very entertaining.

Laughter.

Mr BOOTH - Regarding the operational cashflows in the future, you only have a couple of options. Have you got asset sales in mind? Are there any assets that you might be contemplating selling?

Mr GORDON - Last year was probably the worst year the forest sector has had in Australia and in most of the world. Not only did we get reduced demand but we got reduced prices and a very high Australian dollar, which meant you are getting \$A130 for material for which you would normally get \$A200.

Mr BOOTH - Bob, with respect, I am just trying to get some pretty simple answers to what you are intending to do. If there are factors where you might do that because you think the business will pick up then that is okay but I am really -

Mr GORDON - I was going to go on to the things we are going to do to pick up cashflow by doing some things differently. One of the things we did last year in quite difficult financial conditions was set up Forestry Technical Services. It is a bit like Hydro consulting but a bit different. That generated about \$1 million, not a huge amount of money but that was the first year of operation. We did some major contracts in China with Chinese companies wanting to introduce eucalypt plantations, partly to ameliorate some of their environmental problems but also to produce wood products because, as you know, the Chinese had a major reduction in logging their natural forests and introducing plantation programs.

Mr BOOTH - What does that entail, transfer of technology and seed materials?

Mr GORDON - It's looking at things such as the Chinese planting program which might have had a 20-30 per cent success rate for trees established to trees living; we get more than 95 per cent. Why do we do that? Because we study the soil, the climatic conditions, what species are best. We have helped them establish their own seedling nurseries and we have established with them some seed orchards to do controlled breeding. For example, some parts of China have quite severe frosts occasionally so you need a frost-tolerant species but a lot of frost-tolerant species don't grow very well so you have to have a mixture of those.

Mr BOOTH - Have you ruled out genetic engineering in that?

Mr GORDON - No, it's just controlled pollination. Like you do with most vegetable crops, you just control the mother and father source to control pollination.

Mr BOOTH - And then tissue cloning after that?

Mr GORDON - There are quite a few benefits in forestry in having genetic variation. The Brazilians have gone clonal forestry and one of the problems they have is massive areas with just the one DNA - especially if you get an insect or a disease - and they have no variation in drought or wet weather tolerance. The South Americans have some clonal but mostly they have gone back to normal forestry where you have a mixture of genotypes on the land so you can do selection. You can breed for drought tolerance and a whole lot of things relatively easily. We have done a lot of work, particularly on breeding globulus and nitans, to get better density. The reason for density is partly pulp mill but it is also the modulus of elasticity or the strength and stiffness of this product, which is highly related to its basic density. If you breed for basic density, you can get really strong products. When people in the world ask who has the expertise in plantation forestry, particularly growing for solid timber regimes, they keep on coming back to us, so we have picked up some work in South America and Chile. You are probably aware of the work we are doing in the Northern Territory with the indigenous landowners, where we have had a program of managing their forests with them. We are in the final stages of negotiation with Rio to get access to the bauxite clearing. At the moment they bulldoze the trees and burn them and we want to be able to harvest them for making products such as this and making plywood. With Galarrwuy Yunupingu's clan we have built the first two houses that are 100 per cent out of the local Darwin stringybark timber, which is a beautiful material. It is ideal for decking and cladding but no good at all for making structural products, so that is why you mix it. If you're clever enough, you do things differently.

We have the forestry technical services stream. There is a heap of distressed MIS assets around and we have put proposals about being the forest manager for some of those assets where a lot of the forestry practice by the now-defunct MIS schemes was not of the standard that we would normally use. There is a potential to turn some of that pulpwood MIS plantation stuff into this brave new world of silviculture, particularly the plantations that were put on ex-farmland. It would be relatively easy to convert some of that to these sorts of regimes, with sheep or cattle underneath, and we have the technology to do it - the MIS companies didn't - so again an income stream as a forest manager is one of the things we're growing at the moment. We currently manage some of the MIS schemes that didn't go into receivership. We are the forest manager for some of those. We were pushing this technology because it would allow us to sell our logs for much higher prices. This means higher recovery and a higher finished product in price and using material that is younger, and thinnings, to give us a better return than the traditional forestry silviculture type regimes.

Mr BOOTH - Pulp plus product diversity as well -

Mr GORDON - Correct.

Mr BOOTH - and a product out of a small tree that you otherwise couldn't cut a wide board out of. There are a million reasons why you would go for this manufactured product.

Mr GORDON - Correct. And we have looked at lots of different technology including some of the other engineered wood products which I think Mr Wightman has. These are tilt slabs. They substitute for concrete tilt slabs but they are actually made out of timber. When you see the tilt slabs putting up a new supermarket out of high carbon polluting concrete, steel and aluminium, the average house that is made 100 per cent out of wood captures about 20-25 tonnes of CO₂ in its manufacture. If you can convert from tilt slab concrete to cross laminated timber construction, you can produce most of the material locally, you do not need imported steel and aluminium products, most of which are imported at the moment. And those products are huge carbon emission polluters. But it is again using different technology. So what we have been working on is how to increase our revenue streams by building on what we think we are good at. Now we might disagree on that but at the end of the day it is up to the market. So far when we have put proposals to people they have accepted our contract proposals. We have also done a bit of work, again, with Forestry technical services, on our LiDAR work. LiDAR is from an aeroplane, you have laser beams. It sends a beam down every 15 centimetres.

Mr BOOTH - I am well aware of that unless the rest of the committee needs to know it.

Mr GORDON - What we have done with that is we have got some jobs, both from mining companies and other forestry companies, doing LiDAR overseas and in Australia. It is not a huge income stream but again if you look at our income last year -

Mr SHELTON - Sorry for cutting in there but there has been plenty of time spent on that and we are here to scrutinise FT.

Mr BOOTH - Far be it for me to defend Mr Gordon but he was actually explaining how they are going to get their operational cashflows going and those product lines that you are talking about, you were then going to indicate, I suppose some sort of cashflow as a result of them.

Mr GORDON - So, again, if you look at last year's financial performance, if you took out the money we spent managing four more reserves, and that money came as CSO, we would have made a very small operating profit. If you look at last year's volumes they are not that much dissimilar from what might happen under a variety of scenarios under the new round table arrangements. At the same time we have substantially reduced our operating costs.

Mr BOOTH - What are the major drivers in that?

Mr GORDON - Some examples: we do not use telephones anymore. It is all Internet and Voice over Internet protocol telephones. You save a couple of hundred thousand dollars a year.

Mr BOOTH - Smoke signals is another.

Mr WIGHTMAN - And semaphore they brought back.

Mr GORDON - This is technology that is around. I do not know why everyone else has not done it - it has saved us quite a bit of money. It is more functional. We have a substantial rent reduction on our building by doing some things differently. We are attempting to renegotiate our electricity prices - I should have got someone to ask that question at the GBE hearing about how reasonable they are about electricity prices. Again, I think that will be another lump of money. We have reduced staff numbers. We have about 60 fewer people than we had and that has all been done by a cooperative approach with the unions and our employees. Actually our base

operating costs have gone down. I expect that, as part of any negotiations about future sawlog contracts, our prices would go up. It is supply and demand. When I did economics if supply goes down and demand stays the same the price goes up.

Mr BOOTH - Also it is meeting the cost of production too.

Mr GORDON - Correct. To answer your question, there is not one big bang thing. We have been working for the last two or three years on a whole range of things to reduce our cost of production, to get new products, to get diversity in our markets, to market our technical services and the intellectual work that we have put in on these new product ranges. When you look at all those things, depending on what comes out of the process that will progress the round table principles, then we can see a way forward. Particularly if the 'Trees on Farms' type concept goes ahead and we end up being the manager of choice for new types of silviculture which have the outcome, from our point of view, of increasing biodiversity, because not all of these plantings would need to be exotic species. You could do some restoration of landscapes. I have talked to various ENGOs about growing nothofagus and blackwood and stuff in plantation as well. You might even be able to grow blackheart sassafras in plantation. There are a few things we could do differently. So we are the manager of choice of that, we get an income through from that again, and there is a series of little things that we are looking at doing. There is no 'big bang' solution.

[11.30 a.m.]

Mr BOOTH - Okay. So there are no asset sales contemplated?

Mr GORDON - We did do a sale and leaseback of our vehicle fleet but that was done for straight P&L as well as cash reasons. Some of the big fleet managers get a better deal than anyone else can get on the way they manage the fleet.

Mr BOOTH - But was that decision taken because you had a cash issue and it brought you \$5 million or \$6 million?

Mr GORDON - We have been looking at it for a couple of years and we have been negotiating and an opportunity arose where a fleet manager was particularly keen on getting some more business in Tasmania and it suited us and it suited them to do it. We have looked at various times at some of our remaining pine plantation assets which, again, we have looked at various times of maybe selling those or going joint venture with people who might want to put some processing in place. Again, we have also gone through our land bank. For example, I think we have sold our property at Triabunna to the people building the -

Mr BOOTH - These are all non-forest assets; they are actual office, real estate or whatever.

Mr GORDON - Correct. But, again, companies often make a mistake, thinking there is a magic bullet to solve this stuff. We have looked at all the little things and by little things, they might be, say, \$200 000 or \$1 million in terms of extra income. But when you add all those together, they make quite a big difference and they are the sorts of things we have been looking at.

Mr BOOTH - So then that moves us on to the revenue in advance.

CHAIR - We are not going to move on for a minute; we are going to move round and I will come to Mr Wightman or Ms White.

Ms WHITE - I wanted to ask a question about Robertsons Bridge. I understand that Forestry Tasmania has been given the capacity to do that work. Currently there was some work done to take the old bridge away and that was not Forestry Tasmania's responsibility. It is my understanding that it was Gunns'. But with the wet weather, have you heard that there has been a delay there with that build?

Mr GORDON - I do not know the details of it but I would not be at all surprised, given the quite wet weather we have had on the east coast in unusual times of the year. That is quite a large-span, high bridge and it needs dry weather to build it. I think the money went to Gunns; it is their build and I think we are part of the contracting force that is rebuilding it. I can get some details and put that through the committee.

CHAIR - Would you like to put that question on notice?

Ms WHITE - Yes, I can do that.

Mr SHELTON - Continuing on from the last line of questioning, and the minister has mentioned that there are some negotiations going on and so, to Mr Gordon -

Mr GREEN - Discussions, I said.

Mr SHELTON - There are discussions at this point in time. Are those discussions likely to move through into negotiations over long-term contracts? These are the discussions to do with the contracts of the people who buy wood, the sawmillers out there - moving their contracts through to 2027. So there are discussions going on at the moment; is that likely to end up in negotiations? Is that what the intention is?

Mr GORDON - The intention, from our point of view, is to have genuine negotiations with those of our customers who want to renegotiate new contracts but, as in any negotiation, their starting point normally is, 'We do not want to pay you much for the wood and we want a really long term' and ours is, 'We think you should pay more for the wood and if you want a longer term, you pay more'. So there is a commercial negotiation that needs to go on and part of that commercial negotiation -

Mr SHELTON - Sorry, 'if you want a longer term' - so a three-year contract would be worth more than a one-year contract?

Mr GORDON - Correct.

Mr SHELTON - So there is no ability there for -

Mr GORDON - The millers are saying they value long-term contracts and, again, going back to my economics training, that is supply and demand. If someone values something, they pay more for it. I am not going to get into the individual customers but we want to have negotiations on it. But we have also said to the minister, we will not be doing anything which would be seen to be prejudicing any of the negotiations that are occurring. So one of the things the millers often want to know is the type of timber that is likely to be available - its characteristics, its size, its age - and it is difficult to finalise that until there is some landing on the round table negotiations.

Mr SHELTON - So you do not intend to sign any contracts until after the negotiations on the statement of principles have concluded?

Mr GORDON - I did not say that. It depends how the negotiations go, and again it depends on how the other components go. Obviously the ENGOs want some other things.

Mr GREEN - Do not forget that it is the people involved in the industry who are party to the negotiations. The dinner we were at last night, the AFI, they are actually a signatory.

Mr SHELTON - I understand that, Minister.

Mr GREEN - Yes, so is FIAT.

Mr SHELTON - I understand that, Minister.

Mr GREEN - And they understand perfectly what the situation is as to how we progress that -

Mr SHELTON - And of course FIAT has indicated that they signed that principles agreement because they had a document, a letter of comfort, from the Premier to say that their contracts would be extended through to 2027, or negotiations would start on extending the contractors' contracts through to 2027. So my question is: if those negotiations have started, well and good, that is fulfilling the letter, and therefore we are moving on with that process. The reality is, of course, there is another side of politics that indicated that that would be against the principles of the agreement, and so the Government has started these negotiations. From my point of view, that is good. These sawmillers out there need security. They have invested heavily in the industry. They need the security of these long-term contracts in order to move forward, and it will be very difficult for them to move through the next 12 months or so while all this negotiation is going on if they do not have security of supply, and that is why that is absolutely vital. I do not know how the Greens feel about that, but that is the good news from my point of view that these negotiations are going on.

Mr BOOTH - What, have you been asleep for the last month or so and you have not realised that?

Mr SHELTON - It is the signing of the contracts, Mr Booth.

Mr BOOTH - No, it is not. They said they were negotiating. It does not mean they are going to sign anything. Have a listen to the Premier.

CHAIR - Mr Shelton, do you have another question?

Mr SHELTON - How much has FT paid and how many contractors have been removed out of the high-conservation-value forests through the moratorium?

Mr GREEN - Obviously the moratorium is not in place at this stage, because we have not moved, as Mr Booth quite rightly points out, from his frame of mind's point of view that we have not saved one tree yet, but the intention is once the Government's model is in place that the process begins, and within 30 days those 39 coupes will be protected. Having said that, Forestry Tasmania foreshadow, given that some activity was being conducted in the coupes that were

identified in the formal part of the structure, that they would withdraw. To date I think there have been about three or four that have -

Mr GORDON - Four out of all the 39 coupes.

Mr GREEN - Out of all the 39 coupes.

Mr SHELTON - Okay, so contractors have been moved out and pre-empted by Forestry Tasmania to move out of the high-conservation-value forests that have been identified?

Mr GREEN - As a sign of good faith.

Mr SHELTON - I guess the question from a business point of view is: how much notice were the contractors given, and therefore are they being compensated?

Mr GREEN - We indicated at the time that we would provide \$30 000 to assist, and that was the figure that was deemed as about what it would cost to shift the five contractors.

Mr SHELTON - And so the coupes they have moved out of, these were the HCV coupes that were identified by the ENGOS?

Mr GREEN - As part of the 39, yes.

Mr SHELTON - They have been identified by the ENGOS as high-conservation-value forests?

Mr GREEN - Yes, they are the same ones you are talking about here in your 150 000 hectares.

Mr SHELTON - We are going through a social and economic study to determine which ones -

Mr GREEN - Oh, so this is a flip-flop thing?

Mr SHELTON - My issue is, what definition has been used to identify these -

Mr GREEN - So you are not setting aside 150 000 hectares now?

Mr SHELTON - What definition - this is the question -

Mr GREEN - No, tell me what you are actually doing.

Mr SHELTON - The question here is, what definition has been used for high-conservation-value forests in order for these contractors to be moved out of? Can you give me a definition of high-conservation-value forests?

Mr GREEN - The forests that were set aside as part of the 39 identified and agreed as part of a process that involved the industry, the unions and the ENGOS. The 39 coupes that were identified were deemed by the ENGOS to be of high conservation value. They have indicated that they believe there are further coupes or tracts of forestry that are of high conservation value. Of

course the expertise that will be required through that process will be available on request by the expert panel, which will make determinations on the high-conservation-value forests.

Mr SHELTON - What definition will they use in that process? Can I ask FT for their definition of high-conservation-value forest?

Mr GREEN - I know you have been around politics at a local government level for a fair time. I have also been around politics for a fair time and I know exactly what you are doing. You are trying to torpedo the negotiations. That is what you are doing.

Mr SHELTON - I am asking for a definition. Can you give me a definition of high-conservation-value forest?

Mr GREEN - I know why you are doing it, because what you are trying to say to the committee is that there has been no verification of the 39 coupes and we have just pulled out of five of them without any proper definition. That is what you are saying to the committee.

Mr SHELTON - No, that's not what I'm saying.

Mr GREEN - Yes, you are.

Mr SHELTON - The principals said they would do that, so they have signed up. What I am saying to you is what definition of high-conservation-value forest will be now used to look at and make sure that these forests are of high conservation value?

Mr GREEN - I really understand what you are up to here in trying to torpedo the negotiations, and you have cunningly thought your way through how you can have 150 000 in there; 'We can have a pulp mill and still have a native forest industry' -

Mr SHELTON - That's right.

Mr GREEN - Why is Gunns going to all the trouble? Have you bothered to ask them about that?

Mr SHELTON - We have said we will go through a socioeconomic study.

Mr GREEN - I don't reckon you have. You have never bothered to ask why.

Mr SHELTON - Can I ask FT the definition of high-conservation-value forest?

Mr GREEN - The point is this: the short answer is that patience is the key because there is a governance model in place that will eventually negotiate its way through this. We want a short-term -

Mr SHELTON - Minister, if you can't give me a definition, can I go to FT?

CHAIR - Mr Shelton, you have asked the question so allow the minister to finish, please.

Mr GREEN - The determination will be made of the process and patience is the key. You have come out with your policy, we understand that; everybody knows now what you are up to.

You have said all the loggers understand that you are pulling the pin on 150 000 cubic metres straight off the bat, effectively, because you've got it in black and white here. You have foreshadowed the negotiations. We are not in that game. What we are doing is establishing a process to allow the discussions to take place and allow us to see the future with respect to what the forest industry will look like, and underpinning that will be a pulp mill built in Tasmania.

Mr SHELTON - Can I ask for a definition of high-conservation-value forest?

CHAIR - That was the last question.

Mr ROCKLIFF - He didn't get an answer to it.

Mr SHELTON - I will come back to it.

CHAIR - You can put it on notice but you have asked the question five times and the minister has chosen to answer it in the way he has.

Mr SHELTON - But he hasn't answered it.

Mr WIGHTMAN - He did answer it; he just didn't answer it in the way you wanted.

Mr BOOTH - I would like to return to operating cashflows in the future. You talked about maybe having to bring in various different income flows but what will you do about the revenue in advance that has been used to fund operational matters? I am referring to the \$60 million I think that is still outstanding through the Community Forest Agreement.

Mr GREEN - We know that the CFA provided \$140 million in compensation and the key to the Auditor-General's report - and he made this clear in his report to Parliament - effectively was that the funds were not a subsidy but were in fact compensation for loss of sustainable forests due to the creation of additional conservation reserves. He also said that he found that only \$15 million was yet to be acquitted by Forestry Tasmania; in other words, he was completely satisfied with respect to how that money had been appropriated and the mechanisms by which Forestry Tasmania were doing it.

I know Senator Milne has been suggesting that this has been misappropriated in the cashflow. That has been looked through in great detail and the final position with respect to the acquittal is around \$15 million and Forestry Tasmania will be responsible for managing that to ensure that we get the sort of forestry outcomes that the Community Forest Agreement set out; that is, intensive forest management for coupes and plantations.

[11.45 a.m.]

Mr BOOTH - So there is only \$15 million of the CFA that is still outstanding?

Mr GREEN - Yes.

Mr BOOTH - Where will that \$15 million come from out of your books? How will you find that, given the state of your current accounts? Where will you get the \$15 million given that you have consumed it in operational expenses?

Mr GORDON - Our cashflow is about \$40 million so we have cash, and the \$15 million, which is the only bit that has not been acquitted, is for plantation development. When the AFS PFC standard came in and FT and Gunns committed to ceasing conversion of native forest to plantations, we then had to find a different way to meet the plantation commitment, which is part of what the Trees on Farms project is about, so the 600 hectares and the up to 3 000 we have for the next two years is for basically leasing farmland with the residual. The way the economics of Trees on Farms works with the farmers we have signed up so far is that they get a proportion of the final crop, so it is not upfront cash for land or land rental. Part of the reason we did that is we want the farmers to have some skin in the game so they do not put the cattle in too early or accidentally burn it or something. Their reward is based on a proportion of the final crop, so that changes from our point of view the cashflow and the economics of -

Mr BOOTH - Of the CFA funding that was used on that project?

Mr GORDON - Yes, that is what we are looking at doing. We have not committed it yet but that is the plan, given that we have run out of capacity to plant any more although we have some stands which we planted which, for various insect and other reasons, were not good enough to prune and we are intending to clear-fell those and plant with these new types of regimes which is eligible for the TCFA funding as long as it is going into crops which will produce high-value material.

Mr BOOTH - Anyway, basically what you are saying is that you have sufficient cashflows to meet those commitments in the future when they fall due. I have a series of questions and with regard to how exactly the CFA funded was acquitted, that \$60 million, it might be easier to table them and get an answer.

Mr GREEN - Does the Auditor-General's report not cover it?

Mr BOOTH - No, he hasn't given his final report into the CFA funding.

Mr GORDON - In this report to Parliament he has a couple of pages on it.

Mr BOOTH - Yes, but it is not the final report that we are still waiting for.

Mr GREEN - Do you want to have a look at that?

Mr BOOTH - Basically the questions that I am seeking details on -

Mr GREEN - Okay, just read them out.

Mr BOOTH - How much Commonwealth TCFA grant funds have been transferred in FT's operational accounts? How much has been paid back by year for the last three financial years, how much is outstanding and when will these moneys be paid back? You have given a bit of a comment about that. Can FT return the Commonwealth grant funding to the appropriate accounts now if required to do so? Given that these funds were allocated for specific purpose under the TCFA, how much of the works they were intended for is outstanding as a result of the funds being used in FT's operational account? I guess that would be the \$15 million you were talking about. Given the Tasmanian Auditor-General stated that FT knew it had to return the funds to the TCFA accounts, has FT informed the Tasmanian Auditor-General of the date or year when the grant funds will be restored to the appropriate accounts? That should flow back from that information

with the \$15 million. Which State ministers agreed to the use of Commonwealth TCFA funds to cover FT's operational expenses and was the Federal minister asked for permission or told of this arrangement and, if so, when? It is probably a bit comprehensive.

Mr GREEN - Can I first say with respect to your overarching position about the funds themselves, the Auditor-General made it very clear in his report to Parliament that these funds were not a subsidy but were in fact compensation for the loss of forests due to the creation of additional conservation reserves.

Mr BOOTH - Just for clarification, Minister, isn't that report you are referring to the abridged commentary on a report that he is actually doing specifically and has not yet been tabled? He has talked about tabling it next year now and he delayed it because he thought the Federal Auditor-General was doing the reporting.

Mr GORDON - The Auditor-General, as part of his normal performance audit of various entities, has been working on a performance audit of FT and some of the things that arose from his initial discussions led to other work being done. For example, the enterprise valuation of the assets and the land arose from the Auditor-General saying, 'I think there'd be a better way to do this' and so he got diverted on that. The comments in his report to Parliament this year on the TCFA also partly arose from that. As I understand it, he is continuing that performance audit. Whether it will include the level of detail that you have asked about the TCFA, I don't know, because that is a matter for the Auditor-General. I am sure the minister could get a progress report.

Mr BOOTH - So if I table these questions, Minister, you can get back to us?

Mr GREEN - The other point concerns how Forestry Tasmania utilises the funds available. That effectively was entirely at the discretion of Forestry Tasmania.

Mr BOOTH - We want to know how they were used. That is the question I am asking and it's a reasonable one to ask. Some \$60 million of public subsidy has gone into this to try to do certain things and this committee needs to understand where it is being expended. I think Mr Gordon has partially answered those questions and they are fairly detailed and I'm prepared to have them tabled.

Mr GREEN - I was going to say that now it has been fully acquitted as part of the Auditor-General's process, as I understand it. We must have that information almost to hand right now. It is obviously in Parliament.

Mr GORDON - I have the Auditor-General's report to Parliament that was tabled last week.

Mr BOOTH - But that doesn't detail what I am asking, Minister. It simply details, in his view, that that money should be identified and that FT has accepted that it has to be properly expended et cetera.

Mr GREEN - Except to say that he has looked at it and made a determination that he believes it's being acquitted appropriately.

Mr BOOTH - I am asking where it is. I am looking for the line items. Where did \$5 million go, \$10 million, \$20 million? There is \$15 million left so obviously FT has a good understanding

of where it has expended it but that is not clear from the accounts, so that's what I am looking for. It's a pretty straightforward question and an important question given that it is \$60 million of public money.

CHAIR - Mr Booth, given that it seems to be of a technical nature and the information is not readily at hand, it is best to table the questions and the information will be sought.

Mr GREEN - We will take it on notice.

Mr WIGHTMAN - Mr Gordon, it would be remiss of me not to ask a question about Scottsdale. Obviously it is an incredibly tough time for the community and the north-east community in general. Are there still possibilities and opportunities around the forestry industry? In your expert opinion, could you provide us some wisdom on opportunities we may be able to go after in the future?

Mr GORDON - One of the big advantages of Scottsdale from a timber-processing point of view is the nature of the workforce. You have people there skilled in forestry. Given some of the new products we talked about before, I have brought along what is left from a tree - that is a core. With the new technology we're looking at, instead of the core being so fat it would be about as fat as your little finger, so you get even better recovery of material. One of the high-cost items in going into a new manufacturing forestry process is that often you need sheds, concrete slabs and a whole lot of infrastructure. Scottsdale has two of those facilities, which under commercial negotiations might be available for other uses. We have been working with the Government on looking at options for some new types of processing activities which would use technologies and produce products which have not previously been produced. Some are examples I have given you today but there is a range of other different types of engineered wood products that we've been working on, generally with overseas technical companies, to look at processing those. The minister has asked us to have a look at whether we could use some of those opportunities in Scottsdale.

They are early days yet. Some of them are new technologies that have not been used elsewhere because we have refined the technologies to handle the different characteristics of our wood. Some of this peeling technology was based on softwoods which are much less dense and you can use different equipment. We have worked with the manufacturers to develop new equipment that can handle some of the plantation-grown hardwood and some of the thinnings that might be produced from the native forests up there. There are some opportunities but it is early days yet and we would like to do the hard work. Again, some of them are made from a simple woodchip. I think Mr Rockliff missed the shirt quiz?

Mr ROCKLIFF - I saw it on the telly.

Mr GORDON - So you do not get a prize if you guess. There are some opportunities but most do not involve what I would call 'traditional' forestry manufacturing activities. Mr Booth suggested radial sawing. We have had a look at that and I spoke to the radial sawing people about a year ago. I think they had some financial problems for a while and could not get some of the trials done that we were looking at doing.

Mr BOOTH - I think you gave a forestry award for innovation in 1998 to the radial sawing technology.

Mr GORDON - Yes, it is about that long ago. Some of the stuff we are doing is a little bit out of the box. We have done most of the R&D; it now needs the full feasibility work and probably a bit more market work. We are still sending some of this material to China and we will continue to do that because they have the technical expertise and manufacturing capacity to do some of the trials that we need done to produce this.

Mr BOOTH - Labour at \$2 per day might help as well.

Mr GORDON - It does, although a lot of their technology nowadays is pretty sophisticated. You do not necessarily need low labour costs for some of this technology. You just need smarter technology and an understanding of the end market. One of the benefits of China is that it is such a huge market.

Mr GREEN - In our discussions with Gunns they have been extremely good with respect to working with us on that site and what we might potentially use the site for. Everything that Bob said does not promise anything effectively but we need to do due diligence and think about ways that we might be able to utilise the fact that we have industrial sites and a history of expertise in sawmilling and the timber industry generally to come up with a package that might deliver. But there is a bit of water to flow under the bridge yet.

Mr SHELTON - Were any of the so-called HCV forests regrowth? They have been identified out of the coupes; were any of them regrowth and have they been harvested therefore in the past?

Mr GREEN - I think a number of the declared areas have certainly been harvested in the past. Some of them have tramways running through them and various other things.

Mr BOOTH - Tram lines? Are you talking about Liffey coupe?

Mr GREEN - No, Lune River.

Mr SHELTON - That is good, Minister, not that I was looking over your shoulder but I noticed that you also have a similar map. That is coupe LU003A and 3B. I noticed it was remarkably similar to the map I had in my hand.

Mr GREEN - Same as the letter you were trying to get me to take; you are a bit shifty.

Laughter.

Mr SHELTON - I appreciate where we have gone but contractors have moved out of coupes they only recently started. There were people employed in these areas. They have been shifted out through this whole process and here we are dealing with one which is regrowth. Is this the future, is this where we are going, getting people out of all native forests even though they have been harvested in the past and therefore are only 70- to 80-year-old regrowth? I guess it comes back to that same point, what is the definition of high-conservation-value forest?

[12.00 p.m.]

CHAIR - That was about five questions at once. Minister, would you like to have a go at answering them all please?

Mr GREEN - The reason that they have been asked to move out of the coupe is that it has been identified by the ENGOs as one of 39 which is effectively very close to the buffer to the World Heritage area and, as part of the discussions, it was agreed by the industry, the unions and the ENGOs that those 39 coupes form part of the statement of principles. As a sign of good faith, even though we could have harvested that coupe completely under the regime, Forestry Tasmania put it to the Government that we pull out and we have. It is true that a number of the coupes identified have been harvested in the past, yes.

Mr SHELTON - So this comes back to Mr Gutwein's point earlier on in this process, is that -

Mr GREEN - Where is your process on the 150 000?

Mr SHELTON - It is about a full socioeconomic and environmental study of these areas.

Mr GREEN - Who is going to do that?

Mr SHELTON - It is not about the definition, that is why I asked you the question. I have the ability here to ask you questions and that is the brilliance of this debate.

CHAIR - Please do; ask him a question.

Mr SHELTON - I come back to the definition of high-conservation-value forest. That is critical to this whole debate, to the process that we are going through -

Mr GREEN - I cannot have a reasonable argument with you because you have already declared your position. It is very difficult.

Mr SHELTON - You cannot define high-conservation-value forest.

Mr GREEN - Yes, but you have.

Mr SHELTON - We have said we will go through a process - a full social and economic and environmental study.

Mr GREEN - So are we. We are going through a process.

Mr SHELTON - So you will go through a full socioeconomic and environmental study on these coupes?

Mr GREEN - We will go through a process with an enormous amount of expertise that involves the signatories to the principles that will ultimately make determinations, bring a position to the Government which the Government will either accept or not and we will move on from there.

Mr SHELTON - Thank you very much for that. So, back to some figures and the discussion of course. We know, and it has been mentioned today, that Gunns are in the headlines with their imminent departure from native forest harvesting and, therefore, what discussions have been had with Gunns? We know, through your report, that 320 is the sustainable limit that has been put on there and only 210 was harvested last year, but what wood supply contracts do FT have with Gunns and how much is that? It has been reported a number of times in the paper with a whole

range of figures so how does the industry move forward when we do not know? What are the contractual arrangements with Gunns?

Mr GREEN - In the first place I think it is wrong of you to pre-empt what Gunns may or may not do. They have made certain statements, particularly with respect to their woodchipping operations, but I think that needs to be taken in the context of the industry restructure overall, that it should not be just a focus on Gunns and their decision-making because underpinning their decision-making has been the statement of principles and inherent in the statement of principles, of course, is a downstream processing operation in the form of a pulp mill. So Gunns are part of a restructure of the industry overall and it needs to be seen in that context. So the discussions that we have had with Gunns have been about issues associated with our ability to continue to maintain an industry in the face of what could potentially come out of the principles and therefore the restructure of the industry overall. Some of the decision-making that has been driving Gunns in recent times has been market driven, particularly in relation to contracts from Japan, and they have made that clear to the public. In fact, Nippon Paper has indicated that they will not be renewing their contract. So their tonnages will be dramatically reduced as a result. But, overall, it should be taken in the context of an industry restructure and that is the first thing to be said.

Yes, there are agreements in place with Gunns, and I suppose I could read a lengthy response here - Forestry Tasmania has four current wood supply contracts with Gunns, three of which are for hardwoods and the others for obviously softwood sawlogs. Contract sale 917 is the long-term pulpwood supply agreement for 1.5 million tonnes per annum of pulpwood suitable for the proposed pulp mill sourced from hardwood plantations and native forests throughout the State. That expires on 31 December 2027.

Contract sale 918 is for sawlog and other products supply agreement for 165 000 cubic metres of high quality eucalypt sawlog plus 7 000 cubic metres per annum of lower quality sawlog, 500 000 tonnes of pulpwood and up to 200 000 tonnes for biomass and that expires in December 2017.

Contract sale 704 is for sawlogs supply contract for the sawmill at Huon, which was originally Neville Smith, it applies to almost 50 000 cubic metres of high quality eucalypt sawlog and expires on 30 June 2012.

Contract sale 884 is for sawlog supply for the Scottsdale Radiata Pine mill owned by Auspine and the supply is only from the west coast and potentially from King Island. The contract is only valid if the logs are processed at the Scottsdale mill and it expires on 30 June 2012.

Another contract for sale 740 was for sawlogs supplied for the Neville Smith mill near Launceston that expired in June 2010.

Then there was variation in terms of 917 and 918 initiated by Gunns and Forestry Tasmania early in 2010 to ensure ongoing work for harvesting and transport contractors and the ongoing supply of high quality sawlog and rotary peel veneer logs to Tasmanian timber processors and that is what Mr Booth was referring to earlier.

Mr BOOTH - Could I ask a question about superannuation liability and some inconsistencies in the way it seems to be reported? There does not seem to be a cost of the defined benefits that is not funded in the headline profit that you are listing. You are treating it

differently from the way Aurora does in regard to superannuation liability in that you are not including interest as a cost, a future liability on the unfunded defined benefits superannuation.

Mr GORDON - The accounting treatment of unfunded defined benefits super liabilities are covered by an accounting standard and our recording of our unfunded liability is done independently by the actuary who then gives us the number and the breakdown of that number and that is what is recorded in our accounting. There are a couple of pages of it in the accounts. If you are asking whether that reflects the true liability, yes, it is almost certainly a substantial over-estimation because that is the way the accounting standard is designed. The accounting standard effectively assumes that you do not get a return on any super funds invested; that it just earns the bond rate and the bond rates are matched by assumptions of increases in wages. So it has the perverse effect that in booming economic circumstances the liability goes down because the bond rate generally goes up, so therefore the discount rate is higher, and in difficult economic circumstances when general interest rates go down, the liability goes up. So the approach we have taken - and it was discussed with you in general - is effectively to have that separately reported item which comes in - changes in superannuation, unfunded liability - after our operating profits, so they are reported in the comprehensive statement of income as increase/decrease and a fair valuation in superannuation investment is the money we have set aside to potentially match that. In the increase/decrease in the unfunded super liability, which is about a third of the way down, it is there reported as an increase in liability for this year. In the previous year, I think there was a decrease in the liability, again reflecting that. The way the actuarial accounting standard works is that effectively it is driven off the interest rate. So, if the interest rates go down, the liability goes up. If interest rates go up a lot, which is perverse because normally it's the other way around, that's the way we have reported it in here, which the Auditor-General was very comfortable with. We have reported it that way for at least the last three years that I know of. I am not aware of the way the other GBEs or Aurora report it.

Mr BOOTH - Although the Auditor did make a comment:

'The audit was completed satisfactorily with no major items outstanding and recommended the board give consideration to the following matters -

- (1) including that its financial statements, additional disclosures which, while not required of it by Australian accounting standards, would provide users with better information as follows:
 - (a) a reconciliation of its operating profits and operating cash flows. This would enable readers to better understand Forestry's results from operations to the extent to which these translate into cash; and
 - (b) financial performance by operating segment. This information would assist readers to better assess and understand Forestry's financial performance.'

So, given they are the Auditor-General's recommendations, will we see that sector reporting and the reconciliation of operating profits and operating cashflows et cetera?

Mr GORDON - They were two items that again arose from the work the Auditor-General was doing on our performance auditing, and we would like to work through that. To be blunt, you

could give a whole lot more information but not necessarily mean much. We would like to work with him within the constraints of the accounting standards to make sure that we can provide information that allows readers of our annual accounts to get more meaningful information, not necessarily just numbers. The accounting standards at the moment make it somewhat difficult for most people to work their way through the accounts because the accounting standards are not logical. We are taking that up and I imagine that it will be part of his performance audit, which will be consulted.

Mr BOOTH - Are we looking forward to being able to see segment reporting, for example? Without that breakdown and segmented reporting it is very difficult to understand from your own reporting of cashflows et cetera where they are coming from, what the margins are, et cetera.

Mr GORDON - We had a go at it about three years ago and it didn't add any information that was meaningful to anyone. I agree with the concept that we should try to do it but we need to do it in a way that adds value to the information being provided, not just adds more confusion, so we will be working with the Auditor-General on that as part of his performance review.

Mr BOOTH - As an example to try to help me understand what the annual report says, the Auditor-General again in his report on page 39, talking about export margins, what are the volumes there that were exported on that quantity?

Mr GORDON - For the last financial year?

Mr BOOTH - Yes. Basically I want to know what the volumes were, what the log types were, where the direct costs were, the costs of fumigation and so forth.

Mr GORDON - I don't have those details here.

Mr GREEN - Put it on notice.

Mr BOOTH - Thanks for offering to do that because it will clarify some things I have in my mind in regard to it. On those figures, you have made a margin of \$99 000 on sales of \$6.4 million, which only gives you a gross margin of 1.5 per cent, which obviously is sailing extremely close to the wind.

Mr GORDON - I will break down the market segments. Some of our log exports are for this; so sometimes we send quite small volumes to customers who are in the most inconvenient place you could think of, because it happens to be where the technology is to do some of this new product development. It wouldn't be fair to regard all of our log exports as a straight short-term commercial transaction.

[12.15 p.m.]

Mr BOOTH - Would you not segment that then into like an R&D budget, for example, or a -

Mr GORDON - We could, but what tends to happen is, for example, we developed the market for eucalypts for shipping container floors. We did that over a long period. We probably had 30 customers at one stage, and the customers were chosen to make sure that we did not just have one particular location in China where we were developing this market, and also container floors are not just container floors. There is a variety of them, and we have been doing the same thing with some of these engineered wood products, and you often have to do many customers

with different technologies and equipment, and every time you stop at an extra port, it costs you \$US50 000. Again, if you look at last year's, we started it up again, and a lot of that starting up was actually development work. If we were just doing straight commodity log sales, there is certainly potential to make more money and do things more simply, but that was not the aim of the exercise. When I told people we were doing this, everyone said it was not possible. To do it you needed to spend quite a bit of effort both on the technology and on the marketing elements. There are a couple of showrooms in China. You can go and look at this product as doorjamb, as solid doors. They are bullet-proof doors, they are so dense and strong. You can look at furniture that has been made out of this material. And some of our log export income goes towards funding some of the R&D and product development stuff.

Mr BOOTH - But the point I am making there is that it is important then to sector-report that so that you break down the export sector into areas that are part of a continuing business. Just simply selling logs or chips or whatever it is that you are sending off really ought to go not as an income from sales, but across to product development, which would be either capitalised if you are making up a plant, or if it was just R&D, it might just get expended as research in that year of expenditure.

Mr GORDON - We generally have not broken it down in that detail.

Mr BOOTH - Right. Can I just ask one question then beyond that, which is to do with basically your debtors and a breakdown of that? It seems to have blown out this year both in quantity and the seasoning of it. What is the reason for that?

Mr GREEN - Is this in relation to this year's books?

Mr BOOTH - Yes.

Mr GORDON - We were not the only company that suffered during the global financial crisis. Several of our customers went into receivership and administration. So, for example, we had land that we leased to various MIS companies, relatively small amounts, for which they at the end of the financial year owed money on the rental payments, as they did with a whole lot of other people. Some of our other customers were building up stocks. At the end of the financial year the market started to pick up a bit, and some of our customers were suffering some financial stress, so it was a range of those issues.

Mr BOOTH - So could you give us a breakdown, take it on notice then, like not necessarily the actual companies but what the product debts were for? You have said some of that was for debts. Would you include a lease as a trade debt or would that be on a different -

Mr GORDON - Yes.

Mr BOOTH - So they are all in together.

Mr GORDON - Yes.

Mr BOOTH - So some of them would be long-term leases. Some are actual product sales. So what about the product sales?

Mr GORDON - And almost half of it is current debt, so just because it is a debt does not mean that it is money outstanding.

Mr BOOTH - No, but if it is outside the terms then obviously it is outside the terms, so this is current.

Mr GORDON - But that is all current, not necessarily outside terms.

Mr BOOTH - So how much of that is outside terms then?

Mr GORDON - About half.

Mr BOOTH - Fifty per cent; so would that be -

Mr GORDON - Which is not that unusual depending on the cycle of the market we are in, but it is much larger than we would like it to be, or it was at the end of the year.

Mr BOOTH - Is there any risk then beyond what you have already identified as obviously written off or uncollectible, which would be the issues you are talking about with the MIS scheme leases. Are any of the other debts that are outstanding ones you are concerned about that you might have to write off?

Mr GORDON - We make a judgment all the time about the probability of collection. Although some of the MIS lease stuff might not be collectable, the way most schemes are written if they do not pay the rent you own the trees, so it is a different way of looking at all the MIS stuff. We also had some seedlings that we had sold to some of the MIS companies and the seedlings are not normally collected until July but when the MIS companies folded we probably put those into current debts, although we may have written some off.

Mr BOOTH - I think there was a figure of a written-off debt of \$1.5 million or something.

Mr GORDON - That is a provision, so it is our judgment of likelihood, which would probably include a whole range of those things because once the company goes into receivership you are still owed the money but you can make a judgment about the chances of collecting.

Mr BOOTH - Yes, and you can write it off or not write it off.

Mr GORDON - Yes, but what you normally do is provision it and then if you write it off the next year it does not affect your profit because it is the previous year that you took the provision.

Mr BOOTH - Is there any quantity of debt that you think you are exposed to?

Mr GORDON - That \$1.5 million that we have put in as provision.

Mr BOOTH - That would reflect truly, then, that they would be the only ones you think you are at risk of not being able to collect?

Mr GORDON - At the end of the financial year, yes. Some of them might have been already written off in the meantime. We would have written off some of the MIS seedling stuff and I think there was another one that we have probably written off since then because this was

about the time they were all going under. Some of them have now gone under so it is a different thing, so we would write that out of the provision but it will not have any effect on the P&L.

Mr BOOTH - I just have this last question on FEA.

CHAIR - If it is relevant to exactly that stuff I will allow it and then that will be it.

Mr GORDON - The FEA administrators and receivers still have some unpaid rent owed to FT and so we attend the creditors' meetings. I do not think there is any product.

Mr SHELTON - My question is to the minister. Gunns have said their expectation is that they will receive compensation for the now 165 000 cubic metres that they hand back, and the Premier has stated that the State will not be affording that. Have you had discussions with Federal ministers about that compensation package? It comes to the question of FT's and Gunns' contractual arrangements and if they hand that back where does that leave FT and what is the expectation of FT? Also where does Triabunna fit into that whole picture with Gunns removing themselves?

Mr GREEN - In the first place I just caution the member to be extremely careful foreshadowing what Gunns may or may not do with respect to their own operations and their resource.

Mr SHELTON - I will just make it a scenario, then, because there has been a lot of press over it and you have mentioned in Parliament the handing back of 150 000 cubic metres, so we can speculate on that as it has been in the press.

Mr GREEN - You can speculate but I will just caution you to be careful about putting words into Gunns' mouth as to what they might and might not want to do in their own operations.

We have had discussions with the Commonwealth about allowing the Commonwealth to understand what the broad set of principles means with respect to the restructuring of the industry in Tasmania and allowing them to understand that there is quite a magnitude of things associated with that potential change and how downstream processing might offset the magnitude of that change and allow Tasmania to build a strong economy around a restructured industry with downstream processing opportunities.

The Premier has made it clear that the State does not have large resources that might be required to provide compensation weighed against what the structural adjustment might require as a result of the principles themselves, bearing in mind that is just part of the process here, part of the industry restructuring, and should not be identified on their own.

I think it reasonable that the Commonwealth becomes involved in this process and our discussions with the Commonwealth have been around allowing them to understand that there will be significant structural adjustment required if this whole process is to have the long-term benefit to the environment, to the community overall, to Tasmania as a State and to the nation with respect to issues associated with balance of trade et cetera.

All of those things have been discussed with the Commonwealth and we are at present building a picture of what that might look like in dollar terms or what sort of innovative assistance might be provided as part of an overall package to allow us to move forward with this process.

The answer to your question is yes, we have talked with the Commonwealth, we are developing a framework for allowing them to understand not in great detail but what might be required to allow the negotiations to effectively progress, which is extremely important to us.

Mr SHELTON - Therefore, moving on to Triabunna and the sawmillers around the area, one of the critical factors for them through this whole process is that there is somewhere for the residue to go. The sawmilling sector needs to be able to get rid of that residue and Triabunna is seen as part of that equation and it was mentioned right upfront that there have been some discussions about the Triabunna mill and where the future of that lies.

Mr BOOTH - They chip on site; they don't send it there to be chipped.

Mr SHELTON - Where is the future for the Triabunna community and therefore the Triabunna mill?

Mr BOOTH - They don't need the mill to chip the sawmill waste, you know that.

Mr GREEN - We have talked extensively about this issue and we have talked to Gunns about this issue as well. We have talked to them about their southern operation in the Huon and what it means from the point of view of its continued operation and that of the other sawmilling businesses that exist in the south of the State. It is crucial in the relatively short to medium term that we do secure a place at least to export material from. In discussions with the managing director I understand that people have been thinking about how we might be able to chip those residues on site and export from there, and there is a whole range of things but we do need an export site at each corner of the State to allow for the existing family-owned sawmilling businesses to continue to operate into the future. I think there is general acceptance of that across the board. We can call it a consortium, a cooperative or whatever we want to call it, but it started off as a consortium in the first place. If people think back that is how Triabunna started in the first place. We are working towards achieving that and if the Government has to play a role in that the Premier has indicated on a number of occasions now that we will.

Mr SHELTON - One last question. In the report, it mentions that the Japanese woodchip market was depressed by around 20 per cent over the GFC. It also mentions that the Tasmanian export market was down 50 per cent. What is the difference? Why was Tasmania's export market affected more severely than anybody else's considering that there are still native chips being exported into Japan from mainland woodchip markets and so on?

Mr GREEN - It was mainly Gunns that was exporting to Japan, as I understand it.

Mr GORDON - And Smart Fibre.

Mr GREEN - There has been a trend down in the volumes that Japan has traditionally taken as well in recent times and the CEO referred to changes in demand for a whole range of products, including woodchips. With respect to the correlation on 20 per cent versus 50 per cent, I am not sure but effectively what Gunns have told us is that the people they were selling their product to have decided to look for alternative opportunities.

CHAIR - Thank you, Minister. The time now being 12.30 the scrutiny of Forestry Tasmania has concluded. I thank you for your attendance and interesting answers. Would you like to sum up, Minister?

Mr GREEN - Yes. I thank the CEO, the managing director and the executive general manager for their contributions today. There was obviously a lot of work in preparation for the GBEs and I hope the answers that have been given satisfied the committee. I am certainly satisfied as minister that we have been open and frank with respect to all the questions that have been asked to us, so I thank the committee for that.

CHAIR - Thank you.

The committee adjourned at 12.31 p.m.