

UNCORRECTED PROOF ISSUE

Friday 4 December 2015 - Legislative Council - Government Businesses Scrutiny Committee B - Forestry Tasmania

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE B

Friday 4 December 2015

MEMBERS

Mrs Armitage
Mr Dean
Mr Finch
Ms Rattray (Deputy Chair)
Mrs Taylor (Chair)
Mr Valentine

IN ATTENDANCE

Hon. Paul Harriss MP, Minister for Resources

Ministerial Office

Mr Kim Creak, Chief of Staff
Mr Adrian Lacey, Senior Adviser

Forestry Tasmania

Mr Bob Annells, Chairman
Mr Steve Whiteley, Chief Executive Officer
Mr Chris Brookwell, Executive General Manager, Corporate Services

The committee met at 9 a.m.

CHAIR (Mrs Taylor) - Good morning, everyone. Minister, I note that two years ago when this committee last scrutinised Forestry Tasmania as a GBE you were sitting in this position and Bob introduced Steve as the new CEO.

Mr HARRISS - Members would be aware there is a change in the forest industry, not just to Forestry Tasmania but also positive moves in the broader industry around the state, with the private sector significantly leading the way, but working in collaboration with Forestry Tasmania. I will not go into details about production in the broader forest industry in any detail. Suffice to say there has been an uplift in production across the state in export capacity and on-shore developments.

Members might not be aware that Neville Smith Forest Products recently purchased the sawmill at Southwood from Forestry Tasmania. I contend that is a significant expression of confidence in the industry. Rather than just keep leasing the facility they have taken their option to purchase, and they have.

Recently in the same space of the forest industry seeing an uplift, Norske Skog announced it is embarking on a \$6 million-plus project at its facility to try to get to commercial production output for biosolvents. That recognises the community is looking for environmentally sensitive developments, and the cellulose from fibre presents vast opportunities for that. This is an exciting prospect and the Government has contributed to that with a \$1.5 million grant. I see that as a real possibility into the future for better uses of our fibre.

Specifically on Forestry Tasmania's key achievements - I have no doubt members have familiarised themselves with the detail of the annual report - FT has provided more than 1.5 million tonnes of wood product across all components of the forest sector. You would be aware that approximately 121 000 cubic metres of high-quality sawlog has been delivered, 470 000-plus tonnes of peeler to Ta Ann, and the speciality timbers effort has also been buoyant - I think more buoyant this year than even two years ago, at about 11 000 cubic metres of speciality timber.

This year's profit of \$31.7 million in the comprehensive result, compared to a \$43 million loss for 2013-14, has come with some commentators, including the Greens, unfortunately suggesting they are rubbery figures. That is rubbish. The books, as you would understand, are assessed and presented against entirely the same standards as last year. Last year when there was \$43 million comprehensive loss those same commentators sought to suggest that Forestry Tasmania was a basket case and the like, but these are exactly the same standards, audited by the Auditor-General and with clean bill of health.

Forestry Tasmania in the annual report acknowledge the bottom line is affected by non-cash items like the valuation of the forest and superannuation liability. If we need to, at a later time, we can talk about some criticisms by people like John Lawrence who do not balance the reality of the cash issues against the business. The business performance has improved by over \$20 million in the past financial year. The make-up of that is about \$7.3 million increase in domestic and export revenue, and about \$13 million in cost reductions, coming to in excess of \$20 million.

Forestry Tasmania, during this financial year resumed exports from the Burnie export terminal and exported over 400 000 tonnes of native forest and hardwood plantation woodchips.

UNCORRECTED PROOF ISSUE

You are aware that last year the Government commissioned a review of Forestry Tasmania. The initial phase of the review, on the way the business operates, has already been achieved. Through that process the Government has set clear directions for the future, including a few requirements of Forestry Tasmania. One is that their commercial operations become financially self-sustaining. The board has commented in the annual report about that. The next one is that Forestry Tasmania's activities should be focused on growing trees, managing land and selling wood to domestic customers. The third one is regarding responsibility for export sales and value-added product, Forestry Tasmania should transition that effort to the private sector.

As part of the process for developing the new operating model for Forestry Tasmania, I undertook a comprehensive consultation process with the broadest range of industry participants, and Forestry Tasmania is also undertaking a detailed business analysis. That is a comprehensive process. There are important components of that which Forestry Tasmania is working on as to the value chain of their business.

Members are well aware of the challenges with southern residues with the loss of Triabunna. You are aware we have commenced an expressions-of-interest process to engage the private sector to help identify solutions to that problem. The EOI process brought up 19 expressions of interest; 15 have proceeded to the request-for-proposal stage which is on foot now, with a detailed data room for access to the confidential information which people will need to contribute to the further development of their business case.

The Regional Forest Agreement impacts on Forestry Tasmania's operations both now and into the future. This Government made it very clear we would have a rolling, 20-year regional forest agreement. We would review the process that did not get the review up to 2012, which was required. Because of the Tasmanian Forest Agreement, that was put to one side by the previous government. That review into the RFA, as at 2012, was recently completed and the report of Glen Kyle, the reviewer, who is the former head of the CSIRO Forestry Division, is very complimentary about Tasmania's forest management process and its systems. The report was tabled in the federal parliament earlier this week. Dr Kyle confirms the exceptional quality of Tasmania's forest management. He found that Tasmania's forest practices system is among the most prescriptive and most effective in the world.

To conclude, I express my gratitude to the board of Forestry Tasmania and, importantly, to the staff who over many years now have been subjected to external criticism because of what some people see as an unsustainable business. I refute the notion that FT has ever been an unsustainable business, nor is it at present. The staff have been incredibly resilient during that process and have exhibited their professionalism constantly. I am very grateful for the support they give to what I see as a very valuable industry in this state. I compliment every one of them, along with the board, for the contribution they make to the economy of this state.

CHAIR - Thanks, minister. I am sure you are aware that we are as interested in seeing the forestry industry thrive and survive as you are. We are, of course, going to ask you some questions and will challenge some of the things you just said. Let us hear from Mr Annells first.

Mr ANNELLS - I will not repeat what the minister has said, other than to endorse what he said about the staff. The staff have been terrific.

There are just two key areas that I would like to briefly comment on, because I know your members will be interested in them. The first is safety. We are not doing anywhere near well

UNCORRECTED PROOF ISSUE

enough on the safety front. In our annual report we acknowledge that we have only met three of our own nine criteria in relation to safety. We are very fortunate that most of our lost-time injuries are of a relatively minor nature, but the reality is any lost-time injury is an unacceptable thing for us. We are really going back and looking at our safety processes. Of course, they are processes which apply not just to our staff but to our contractors as well. The board is responsible ultimately for the safety performance of all our contractors, whether they be harvest contractors or haulage contractors. Every time there is a log truck rollover we are really concerned. Is it carting our wood? These are the reasons we go to a lot of effort to improve safety in this area. It is six months since we had our last lost-time injury. That is pleasing, but it is nowhere near enough. I can assure your committee, Chair, that safety will remain a major focus for the board in the years to come.

The second thing I wanted to talk about is FSC. You are well aware we are going through an audit process at the current time. Nobody is more frustrated than the board at the delay and the time this is taking. The people who are undertaking this audit are highly experienced. They are internationally accredited. They will take their own time, and that is what is happening. It is an extremely complex process. There are over 200 separate indicators. This makes it even more challenging, given the size, diversity and spread of our operations. We certainly hoped to have the final audit report by now, but there have been some technical difficulties on the other side and with peer review process, so we are led to believe. These are matters completely out of our control. We sit and wait.

However, contrary to suggestions you read in the press, this is not a process of pass or fail. The whole FSC process is built on the concept of continuous improvement. The audit is therefore essentially a progress report that is part of the journey towards receiving certification. It will highlight where we need to improve our activities to meet the required standards. That is the way in which the audit process is undertaken.

As noted by the auditors in response to media inquiries in April this year, and I quote -

The issuance of major and minor corrective actions request is the standard outcome of virtually all FSC forest management certification audits.

He also noted that in over 20 years of audit projects around the world he has never conducted an FSC certification audit where there were no findings requiring corrective action.

While we have not received the final report, we have had plenty of discussions with the auditor particularly when he was leaving Tasmania after the on ground component of the audit. From that end it is obvious there were three key areas we need to work on. There may well be others that come up in the audit report but there are three - clear felling of mapped old growth forest; protection of habitat for threatened species, particularly the swift parrot; and the methodology for identification of high conservation values. These were the three areas that he made very plain we needed to improve. We have not been sitting on our hands waiting for the final report to arrive.

In relation to clear felling of old growth, in releasing our last three-year wood production plans in July this year we announced that in 2015-16 we will complete our phase out of clear felling coupes containing old growth. These are defined as those coupes containing 25 per cent or more of mapped old growth forest. From 2016-17 onwards there will be no clear felling of these coupes. This is a very important and significant change in our operation.

We are committed to protection of all threatened species and we have been working with the Forest Practices Authority, DPIPWE, researchers, and species experts for some time to find ways to reduce the potential impacts of our harvesting operations on species such as the swift parrot, particularly as those parrots nest in hollow bearing trees. This work is continuing. The science is not yet in but we recognise that recent modelling predicting an extremely rapid decline in swift parrots due to nest degradation by sugar gliders. This research cannot be ignored. We also acknowledge that sugar gliders are not present on Bruny Island so we recently decided, with Government, to take a precautionary approach and would not schedule any further harvesting on Bruny Island pending the completion of an evidence-based strategic plan for the conservation of swift parrot habitat in Tasmania. This decision will have no immediate impact on the supply of high quality saw logs and peeler billets to the Tasmanian industry but we will need to consider the longer term impacts when the strategic plan is developed.

Finally, the identification of high conservation values. We are working with a panel of experts to undertake a full review of our approach to identification and presentation of high conservation value and are confident that we will be able to satisfactorily address any concerns the auditors may have in that regard.

As I have noted many times, achieving FSC certification is not easy and nor should it be but we are committed to the journey. The Government is fully behind us and we all believe the required effort is worth it, including the industry. In addition to meeting increasing market demands for this certification one of the primary reasons for seeking it has always been, from the board's point of view, to use it as a mechanism to genuinely improve the operations of FT. That is happening.

CHAIR - Thank you very much and thank you for the update on FSC. We probably won't need to ask you too many questions about that as a result.

The major issue that we want to start off with is your financials and I would like to challenge you, minister, for a start. You mentioned the Auditor-General giving you a clean bill of health. We have the Auditor-General saying forestry continued to operate at a loss. We looked into this in some detail with the Auditor-General's staff yesterday and they are saying to us that your financials do not look any better than they did the year before because this year you have had an equity injection as opposed to deficit funding in previous years. Bottom line, they do not see that and Mr Annells, last time he was here, said something like we need to do a dramatic turn around and it will take some time to do, and that is two years ago.

My first question is can you meet the policy objectives - short term/long term - and what are the major impediments to doing that? I am sure all the members want that question answered.

Mr HARRISS - The underlying component of all of that, Chair, is the Government has made it very clear that the commercial operations of Forestry Tasmania have to become a sustainable process and that there will be no further cash contributions from the consolidated fund for Forestry Tasmania. That stands.

I draw your attention to page 67 of the annual report which is a really good snapshot of the components that brought about the turnaround in the \$43.1 million loss last year on a comprehensive basis, to the \$31.7 million positive in the year under scrutiny, again on the comprehensive basis. You are also aware that in that situation of there being no contributions to

UNCORRECTED PROOF ISSUE

the commercial operations of Forestry Tasmania from the consolidated fund, through the review process and in consultation with Forestry Tasmania, the Government has determined that the plantation asset presents an opportunity for the sale of some of it - that will be scoped out, there has been some work done so far and it has not been concluded yet - Forestry Tasmania will still be able to debt fund its business over the next two years while we progressively reach that situation. The funding against that debt funding of the business will be scoped out as against the sale of some of the plantation asset.

Members would be aware that the plantation asset is a mix of pruned, unpruned and unthinned. Some of the plantation asset has been grown specifically for pulpwood production. All of that 50 000 hectares will be assessed in terms of what component of it needs to be put on the market to provide the funding to the commercial operations of Forestry Tasmania during that process.

The policy position does not change. Forestry Tasmania has made it very clear in its annual report, plus in communications with me, that it supports the Government's position on that, putting it onto a sustainable footing in the future.

As to any further detail against the \$31.7 million, whether Bob has anything to add, or Chris?

CHAIR - My question to you, though, is about the fact that there is a \$30 million equity injection from another GBE this year. Yes, you are not taking it out of consolidated revenue but is this just not funding it by another means of taxpayer money in a sense?

Mr HARRISS - By the time the Government came to office in March last year and then commissioned the review of Forestry Tasmania with the steering committee and then identifying what opportunities there might be to provide the funding for the business in its commercial operations, that the business was debt funding the operation. The previous governments were on a trajectory - from memory and Chris will correct me if I am wrong - the previous financial year the cash injection was \$23 million to Forestry Tasmania's business.

CHAIR - As deficit funding.

Mr HARRISS - Yes. But nonetheless it was a cash contribution from the government to Forestry Tasmania.

Mr VALENTINE - That was 2013-14 wasn't it?

Mr HARRISS - That is right. Upon coming into office, we made it clear that no further contributions - you are right, Chair -

CHAIR - An equity contribution from another GBE is surely just government funding under another name, through another channel. It is not from consolidated, we understand that.

Mr HARRISS - You are also aware that equity transfers from government businesses to other government businesses are part of normal business operations of the government. There have been times in the not-to-distant past where there was an equity transfer to TasRail from one of the energy business.

UNCORRECTED PROOF ISSUE

CHAIR - Yes, let us talk about TasRail as well. Mr Annells would be very happy. Well done, minister. The point about it, we understand that. We understand it has happened in the past. The point of the question, is this going to continue to happen for Forestry Tasmania because GBEs are not going to continue to - is this the only equity contribution from another GBE that you can see in the foreseeable future?

Mr HARRISS - We have made it clear that the scoping for the sale of the plantation asset is Forestry Tasmania running its own business within. The \$30 million equity transfer, given the business is debt funded, that was a solution. It was a reasonable, everyday process of government doing business. Private sector does business exactly the same when it has a portfolio of components to its whole business structure. There are equity transfers in everyday business in the private sector. This is no different.

Mr VALENTINE - It does not make the business more sustainable.

Mr FINCH - Minister, some more detail please on this sell-off of plantation. Can you give me some idea of the quantum, or what might be the projections for the amount of the 50 000 hectares that might be sold off, and how long that process is going to take? Can you give us some detail on that?

Mr HARRISS - I will go to Bob in a moment for the detail. I am aware of the plantation asset. I am aware of the mix of the plantation asset, in terms of the unpruned and unthinned, the pruned, and that which has been set aside for solid wood or sawlog production into the future. That is important to bear in mind. That needs to be factored in post about 2027. You have all probably seen the horizontal graph in the annual report, year on year, identifying what is needed into the future.

Until it is scoped out as to what should be brought to market against the projections or the predictions as to the cash need into the business, I cannot specifically answer the question as to how much of the plantation asset would need to be sold and, against that, what bringing it to market might deliver.

There is a buoyant market out there at the moment for plantation wood. Particularly, at this stage, you are all aware of Forico's investment in the former Gunns' asset. It has strong markets for its product, which would suggest there is, and always has been, a strong demand for plantation fibre. We would be speculating at this stage if we were to put a dollar figure on what we might need in terms of what might need to be sold from the plantation asset to achieve that dollar figure. I do not know if Bob has anything further to add to that.

Mr ANNELLS - Perhaps I could come to that but give a slight introduction about our financial position. Unfortunately, accountancy is a black art that produces some extremely different range of figures.

CHAIR - I am not sure we should put words in the chairman's mouth.

Mr ANNELLS - Thank you, Chair, I need your protection today.

CHAIR - Probably from your own minister.

Mr ANNELLS - I do not think so.

Laughter.

Mr ANNELLS - I have been on the public record, and the minister has said it today. Yes, our accounting is done on exactly the same basis as last year. Yes, it has been signed off by the Auditor-General. It shows a remarkable turnaround. Most of this is in non-cash issues. Therefore, from the board's point of view, it is interesting, and it has to be done, but does it have any real significance? None whatsoever. A revaluation of our forest estate does not help us one iota.

What we are tracking very closely are the cash components, and only the cash components, of how we are travelling. In that respect, I have great confidence in two figures in the report, which are the cash components. They are the middle two green bars on page 67 of our report. There was an increase of \$7.3 million in our trading revenue for the year. It reflects largely that we have access to the Burnie port for exporting woodchips. That makes a huge difference to us in our revenue. Our revenue went up by \$7.3 million. We reduced our cost base by \$13 million. That is the figure the board is concentrating on - reducing our cost base. To achieve that, we have to do a whole range of things, most of them unpleasant, including retrenching a considerable number of people either side of the financial year, but roughly 65 in total. Those numbers are the two numbers we are concentrating on. Can we drive our revenue even higher and can we reduce our costs?

Turning to Mr Finch's question about the plantation estate. We have roughly 40 000 hectares of our own estate. On top of that, we have another 14 000 hectares, which we believe we own, which are ex-Gunns MIS hectares that we have taken back through failure to pay rent. In total, we are in the vicinity of 54 000 hectares. About 20 000 of that is in high prune and about 35 000 is not high prune. The Government, in making its decision, has said we would sell so much of our plantation estate as is necessary to cover our operating deficits for two financial years. This is the first of them this year.

With the \$30 million equity injection - and without going into that issue - it effectively brought us back to zero. We had no borrowings at the beginning of the year and we ended up with cash in the bank, amazingly. This year, our job is to drive those two figures I talked about before. Drive our revenues higher, through the sale of product and exporting, and increase that if we possibly can, but we have to continue with cost reduction.

This year, we will have the full benefit of our retrenchment and our redundancy program, as hard as that was to put in place, but we will not have very considerable one-off costs in relation to the payouts we had to make. Our financial position is capable of being made considerably better. Can we keep our aggregated borrowings over the next two years to a number that can be repaid through the sale of our unpruned plantations? I do not know. We have done, and are continuing to do, a great deal of analysis on what is a very complex issue. These are not all in nice parcels of land. They are spread all over Tasmania. There are literally hundreds, if not thousands, of separate bits of plantation we have to look at. We will look at the market and decide what is the best way to get to market. We are getting advice on that with Treasury at the moment. We have some ideas in our own head as to what they may be worth, but I would not want to give them at this point because they would be highly speculative and, quite frankly, commercially sensitive.

Mr FINCH - So Mr Annells, you cannot detail at this time the appropriate proportion of plantation estate to be sold. You are saying it is a moveable feast and you have to watch what

UNCORRECTED PROOF ISSUE

happens over the next two years of transition, then just see what might be let go and how things will shape up as far as the appropriate proportion of your plantation is concerned.

Mr ANNELLS - Yes, but it is very clear that what we are trying to achieve, with the minister's absolute support, is to retain all of our high-pruned and thinned plantations that have been earmarked for hardwood production, effectively sawlog, going forward. We are trying to corral around that. So we are balancing at the moment whether by reducing our deficits we can keep that below the figure we can generate through the sale of our less valuable plantations. That is what we are trying to do.

Mrs ARMITAGE - Minister, you are satisfied that Forestry Tasmania has the ability to operate without taxpayer handouts in the future. What is your timeline for that? I know you are looking to sell off. I was going to ask the same question as Kerry regarding the value of the plantations. I understand you cannot say that.

Mr HARRISS - Post the review it has been decided that Forestry Tasmania has a two-year time frame to move through the negotiating process an operating model which does not require further input from the consolidated fund, and part of that process to work through that two-year time frame is the scoping for the sale of the hardwood plantation asset.

Mrs ARMITAGE - What is the amount FT would be authorised to borrow in 2015-16 and 2016-17?

Mr HARRISS - At the moment the borrowing approved by Treasury is \$31 million.

Mrs ARMITAGE - Will they be able to increase that?

Mr HARRISS - I am not going to speculate on that. It is not necessary to do so at the moment. The borrowing limit is \$31 million. If I can round that out, last year it was increased to \$41 million from \$31 million and at that time, people who wanted to detract ran to the media and said things like, 'The Government has pumped another \$10 million into Forestry Tasmania.' That is not true; it was just a buy-in facility. You would appreciate that the operation of the business fluctuates. If a ship comes in and leaves the shore with product in it the day before the end of a financial year, it makes a massive difference to the cash position of the business. If the ship does not sail until the day after the end of the financial year, there are cash issues. So when people suggested last year that the Government was pumping another extra \$10 million into this 'moribund' industry or business, it was mischievous, incorrect and simply untrue.

Mrs ARMITAGE - FT really is a moving feast. It is impossible to say what the plantations are worth, how much you need to borrow, or whether you need to increase the borrowing, because you really do not know what is coming in, what you have, and what you owe.

I guess the Gunns issue is another matter that you are not sure whether you are going to have to pay. You have a \$39 million action there coming up.

I notice in the Auditor-General's report from November into Forestry Tasmania, he says, 'Of concern was the highest negative operating cash flows of \$16.895 million, almost entirely caused by the removal of deficit funding.' What advice did the Government get before committing to the decision to allow an equity injection? Will you release the advice?

UNCORRECTED PROOF ISSUE

Mr HARRISS - You would understand that a normal operation of government is to make assessments as to its portfolio of businesses. The Government knew from where Forestry Tasmania had been tracking that it was likely to need around \$30 million. That is when the decision was made to provide from TasNetworks the \$30 million equity injection on 1 July this year. That was a prudent assessment facilitated by Treasury, as they should, with advice to both the Treasurer and myself. That was a proper and prudent decision.

As to your comment that FT is a fluctuating business, it is true; it is a dynamic and complex business.

Mrs ARMITAGE - When you say fluctuating, I guess I really mean it is impossible for us to tie you down to figures because you cannot produce the figures. So we cannot say they are wrong because you cannot provide them. I understand that. However, it makes it really difficult to scrutinise something when the figures can change and, because we do not have them in front of us, we cannot say that is not what you told us because you cannot assess what they are for either confidentiality or positive unknowns.

Mr HARRISS - I will address that by coming back to another of your comments, Rosemary, when you indicated that we do not know what the plantation asset is worth.

Mrs ARMITAGE - I understand that.

Mr HARRISS - That will be determined through the scoping process, which is on foot. We have engaged a consultant to facilitate that and that will come to market.

Mrs ARMITAGE - Are there customers? It is all very well to have the product but do you believe you have customers out there for the product to bring in the income?

Mr ANNELLS - Yes.

Mr HARRISS - Based on my earlier comment that there is buoyant demand for plantation fibre, Forico is probably touching the tip of that. Forestry Tasmania already exports some plantation fibre. There are markets and this process needs to be scoped through so that the determination can be made. As Bob has indicated, in the commercial sense all of that is sensitive. You want to bring the component of the plantation to market in the best possible opportunity to maximise its value.

Mrs ARMITAGE - That last part was mentioned by the chairman regarding the redundancies. I had it that there were 59 in 2014-15, so it is up to 65.

CHAIR - Could we just finish the plantation bit first because there are a number of people -

Mrs ARMITAGE - It was just that the chairman mentioned that in his explanation of the financials.

CHAIR - We have been on plantations and a number of people want to finish that.

Mrs ARMITAGE - It was financials I thought we were really talking about but it was just that the chairman mentioned that and I wondered - one last question - whether there were likely to be any more job losses, because you mentioned at the moment 65.

Mr WHITELEY – Fifty-nine is the number.

Mrs ARMITAGE - I had 59 but the chair went to 65 in total.

Mr ANNELLS -What I was trying to convey was that some of them left after the beginning of the financial year so they were not all in one financial year.

Mrs ARMITAGE - It was whether there were likely to be any more, that was all.

Mr ANNELLS - As much as I would like to sit here and say there will never be any more redundancies at Forestry Tasmania, I can't. No business can ever say that. It is a very dynamic business but we have no planned redundancy program at all in the coming years. What we are hoping to do is to settle down our existing workforce who have been very patient through this whole process. We need the sorts of skill sets they have.

Mrs ARMITAGE - So it should be fairly stable at the moment?

Mr ANNELLS - Yes, I am very hopeful that that is the case.

Ms RATTRAY - Minister, when you go to page 45 of the Auditor-General's report on Forestry Tasmania, it shows the average staff costs have increased substantially. We have fewer staff but the cost of the staff is more. Can you give me some idea of what is driving that increase? Are we using higher-paid personnel to do what was formerly done by lower-paid personnel in Forestry Tasmania? That is the info I am getting on the ground.

Mr HARRISS - I cannot give you a direct answer. I don't know whether Steve or Chris can round that out.

Mr WHITELEY - The redundancy program was 59 but most of those people were -

Ms RATTRAY - On the ground?

Mr WHITELEY - in the field, and that reflected -

Ms RATTRAY - I know half of them.

Mr WHITELEY - On averages within the organisation they were relatively lower paid, but some of the professional people and managers, from a purely mathematical point of view, that increased the average by virtue of those people.

Regarding the other comment about are higher paid people doing some other tasks, with some of those people disappearing there has not been a replacement of that, but some of those tasks would be picked up by others who remain in their workforce. What we have aimed to do is, rather than have people in silos doing particular tasks, we have looked to diversify the activity seasonally for all of our staff. There are many more people who, for example in head office, are now part of our fire-fighting effort. We have tried to break down some of the silos and have people available to do a range of things.

UNCORRECTED PROOF ISSUE

Ms RATTRAY - Effectively, you have taken out a significant number of your workforce, but it has not taken away a lot of that cost?

Mr WHITELEY - It is a significant cost.

Ms RATTRAY - But if you had taken out more middle management and left the people who were working in the forests and doing those jobs that are important, like thinning, like pruning, all those things that give you value to your resource, would that not have been a better approach?

Mr WHITELEY - Contractors did most of those things.

Ms RATTRAY - I understand that, but they checked a lot of that work.

Mr WHITELEY - That is right.

Ms RATTRAY - The pruning and the thinning, which has not been undertaken. A lot of that has not been undertaken because we have not had enough staff.

Mr WHITELEY - This is a matter of detail, but the thinning program continues but the pruning program has been completed. Some of the tasks that had been allocated - and you are quite right - were jobs done by various people and part of that has been through the natural cycle of the age of the plantations. We have now completed our pruning program. Some of the things that our staff would have done in checking quality standards, supervising contractors, engaging contractors and those sorts of things, that work program is not required any longer. It is not a matter of any other driver, it is simply the task has been completed. The 20 000 hectares has now been pruned and it is forecast to grow into more than a million cubic metres of pruned log that will be available.

Ms RATTRAY - That includes the coupes that you picked up from the Gunns issue?

Mr WHITELEY - No, they were -

Ms RATTRAY - You are not completed then because you have thinnings and prunings that have not been done on those coupes?

Mr WHITELEY - We are currently not able to operate on those coupes. That is a matter where the company did not pay the lease and until that is settled by a court process FT simply protects those trees. We make sure that they are healthy, but we are not in a position to carry out work on them.

Ms RATTRAY - So you really do not know what their value is because you do not know what condition they are in?

Mr WHITELEY - No, that is right. It was a legal matter where the trees were managed by another entity on leased lands and when they failed to pay the rental FT asserted ownership of those trees.

CHAIR - I have a number of questions on plantations. Have you finished your questions on plantations?

UNCORRECTED PROOF ISSUE

Mr VALENTINE - You are talking about wanting to keep the best of your plantations for various purposes, the pruned and thinned ones. Are they all nitens? You talk about sawlogs, are they nitens, and are you talking about the Hardlam Project when you are talking about keeping them for a purpose like that?

Mr WHITELEY - The majority of them are nitens, but a proportion are globulus. Depending on the site, the cooler, wetter sites were planted with nitens and the drier sites were planted with globulus. It is the nature of the two different species. The planting program was customised based on the coolness and dryness of the estate, but they both have the same purpose of growing a pruned log estate.

When the funds were initially provided, because it was something that had not been done at scale before, the anticipated success rate was around 60 per cent of all the trees established would end up being high pruned. That was before anything happened. That was the structure of the program. As it has turned out, of the trees that have been planted, around 70 per cent have been pruned and are in the process of being thinned to complete that treatment.

Mr VALENTINE - I was under the impression that nitens was not a structural timber and that is why my ears pricked up when I heard 'for saw log' and that is why I thought it must be for Hardlam purposes into the future.

Mr WHITELEY - Part of the evidence people are referring to when they look at the properties of nitens, what many people have done is sawing of younger trees. Often it has been 20 years and often it has been little more than 10 years old. It is clear, at that age, nitens is low density. We have done some trial work. Some of the collaborative R&D we have done has been on 30 year old nitens and we have done the milling. The milling has been done by Neville Smith, the peeling has been done by Ta Ann, and it has been sent to various labs to test the wood properties. What it has found is that a proportion of the nitens, when it is 30 years old, is equivalent to regrowth and on average it is not. Within that, they are doing some further work on what it is. Is it part of the stem or is it part of the growing characteristics, looking at the genetics of where the stock came from because it came from a number of seed sources. All the way through these programs there is R&D commenced on some of those things.

Mr VALENTINE - Some might go to peeler and some might go to saw log?

Mr WHITELEY - We are growing, and it is published in our sustainable yield report, the pruned log with the intention of meeting a saw log specification in future. It is not saying it could not be peeled but that is the intention in terms of the log size. The other component we refer to as solid wood. They are some larger stems that when it comes to that age, they will be suitable for rotary peeling. The fact they have not been pruned, it will still be fine for structural purposes. Having a face grade of the pruned material would put the composite boards together. The intention was to plant the right trees on the right sites with a view to growing a solid wood resource that was capable of being sawn and would also underpin a rotary peeling industry.

Mr VALENTINE - A question to the minister or the Chair with regard to marketing. If we do not do this right, we could find ourselves in a situation where we only have one buyer for some of this plantation resource and we end up, not in a fire sale situation, but you know what I mean, the lowest value. How are you going to manage that?

CHAIR - Are you talking about the component they might sell in the next couple of years?

UNCORRECTED PROOF ISSUE

Mr VALENTINE - Yes, the ones they are not going to keep for future saw log resource. Presumably the ones that are not pruned have the lower value and they are likely to be used for wood chipping. How many players are there in that market in Tasmania?

Mr ANNELLS - That is what we need to test specifically. We could write down a list of several.

Mr VALENTINE - There is not just one?

Mr ANNELLS - It is not just one. Treasury is currently engaged in the process of engaging an adviser to assist in this process. It is a difficult process. The compilation of the data will be a complete and utter nightmare because it is so dispersed. There are a variety of types and quality. This will not be an easy or quick process but it is a process that is capable of being done and there is more than one buyer.

Mr VALENTINE - You are talking about selling the plantation only and not the land?

Mr ANNELLS - No.

Mr VALENTINE - Is all of this on FT land or is it on some of the land that has been transferred across to DPIPWE?

Mr ANNELLS - None on the land belongs to DPIPWE.

Mr VALENTINE - It is all to do with Forestry Tasmania?

Mr ANNELLS - It is all on FT land.

CHAIR - Will you replant, is that the plan?

Mr ANNELLS - One of the issue we need to consider is the basis on which we sell. Do we sell on one rotation or two rotations? What impact will that have on the sale price? We need to think about the scale that we sell. Do we sell a number of parcels or do we put it all together as one? This is where we are going to get this advice. This is a complex process but it is not beyond the wit of Treasury to assist us through it, I am sure.

Mr DEAN - The replanting you have touched on, that is covered? I asked this question during the Estimates, and you told me to go home, so I will ask it again. For its ongoing functions Forestry Tasmania will be heavily reliant on the product that it sells and maintaining the contracts. Where does that look for Forestry Tasmania beyond next year? Will they ever be able to buy sufficient product on the contracts that are now there and maybe there might be other contracts? Will they ever be able to be self-sustaining? You have answered that to some extent. With the product that is currently being sold for Forestry Tasmania, what is the profit margin? Is it now being sold at profit? There was the suggestion at one stage that it was not being sold for profit and you were selling it at a loss. That included a native forest product, including the other products as well. Where are we with that, minister?

Ms RATTRAY - Are we selling it too cheap still?

UNCORRECTED PROOF ISSUE

Mr HARRISS - Bear in mind an important component when you are talking about high-quality sawlog. We are talking about long-term contracts with Forestry Tasmania's customer a la sawmills for high-quality sawlog. Those prices are subject to review during the process of the contracts being in place. Most of those contracts do not expire until 2027. I am sure in the annual report there is a breakdown of the sales revenue from product and the costs against producing that.

Mr BROOKWELL - In terms of the annual report, the cost profile is on page 100 and the revenue breakdown is on page 99.

Mr HARRISS - Chris, could I get you to go through that, please, and address Ivan's specific question about the costs of production versus the revenue secured for the product being sold?

Mr DEAN - And coming from that, minister, I am not quite sure whether you are doing any cable-logging now. It was always suggested and said that cable-logging was running at a loss. With the greatest respect, I thought this would have been something Forestry Tasmania would have well and truly in place by now, whether it is cost recovery and whether they are making a profit from it.

Mr BROOKWELL - On page 99, the revenue from the sale of forest products has increased from \$95 million to \$103 million. Both the minister and the chair referred earlier to the improvements in the cash components of the business. One of those improvements was the \$7.3 million improvement in revenue from forest products, so a 6-7 per cent improvement year on year in volume and price components. I refer you to the sale of the softwood right in 2014, which was \$6.5 million. That was a one-off sale that occurred in the prior year which we did not get the benefit for in 2015, so obviously that improvement in the underlying volumes and prices in 2015 overcompensated for that revenue which we did not get following the sale of the rights.

Moving on to page 100, the expenses from the production and sale of the wood products is \$80 million, and that reduced by \$2 million, so there is an improvement in the cost profile there. We have other sales costs which reduced by \$3 million to \$4 million from \$13 million to \$9.5 million.

Ms RATTRAY - What are 'other sales costs'?

Mr BROOKWELL - There are some export costs in there, some other sales costs, and freight.

[10.00 a.m.]

Ms RATTRAY - But then there is 'freight' underneath listed separately. Why isn't that all in the freight component, if they are related to freight?

CHAIR - What are the 'other sales costs'?

Mr BROOKWELL - I do not have analysis of the \$9.5 million with me.

Ms RATTRAY - Can we have that taken on notice?

Mr BROOKWELL - The first four lines would be the direct variable costs of producing wood. You can see there has been significant improvement in the costs reducing plus the revenue increasing, which has improved the gross profit of the wood sales. Coming back to the earlier

UNCORRECTED PROOF ISSUE

comments about page 67, all of those are concentrated in the improvements in revenues and costs that get paid out in cash and received in cash, which will sustain through the business in FY2016-17. They are not one-off improvements.

Mr DEAN - The figures can mean anything; it depends what you want them to read as to what you get from them. We are satisfied that the product currently being sold, the contract timbers, are selling at profit, returning a good return to Forestry Tasmania - or are they, minister? You have said that some of those contracts were in place through to 2027. Are those contracts profitable to Forestry Tasmania?

Mr ANNELLS - You are right in one comment - you would not run your own business this way because you would not have the overhead costs we have and have to meet, being a GBE and supporting the industry. They are two different things: running a specific business, and running this very big complex business. We make a perfectly adequate return on high quality sawlog and on peeler logs. If you look at it from the perspective of the very precise costs of our delivering that wood to the mill door, it varies between customers and where we are harvesting the wood at the time and the cart distance and all sorts of things. But on average, we are satisfied with that.

What it does not provide is any surplus to actually meet the other overheads in the business. We are not adequately receiving, from high quality sawlog, or from peeler logs, and certainly not from pulpwood sales, sufficient profit to underpin the rest of our business - our salaries, wages, rents, et cetera. Clearly if we are losing somewhere between \$20 million and \$30 million a year, we are not running a good business. It is not a good thing in that sense. The question has to be turned around somewhat: is Forestry Tasmania heading in the right direction? Strip out all the one-offs and all the things that go on in any year. The answer to that is absolutely.

What does the future hold? A lot of that depends on whether the southern residue solution process comes up with a good solution for southern residues. At the moment a proportion is being carted north at a cost of about \$5 million, which is straight off our bottom line. If we lost \$25 million, \$5 million of it is transport costs of southern residues from south to the north in order to keep the southern industry going. Is that the right thing to do? We think it is. We think there is potential to find a southern residue solution. In the interim we need to support the industry, and all the investment that has been made by the private sector, by continuing to deal with southern residues in this way. It is not a long-term solution; we know that, but it has been the solution adopted basically since Triabunna closed down.

Mr DEAN - Hasn't that position created and caused Forestry Tasmania to get into the slump that it is starting to recover from - as we are told? The fact is you cannot, and are not, selling the product to recover all the costs that Forestry Tasmania incurs as a result of providing the product. Isn't that the reason we are where we are? How long do we now have to do this for to get into a position of where you are recovering all costs and in fact making a profit from it? Isn't that what it's about?

Mr HARRISS - It is not the reason, as Bob has just indicated; there are a number of activities Forestry Tasmania undertakes for which it generates little or no revenue. People are well aware that Forestry Tasmania manages a large estate, about only half of which is true production capacity forest. After the various reserves processes of negotiated process in the past, even now sitting on Forestry Tasmania's books is permanent timber production zone land of about 800 000 hectares, if I am not mistaken. With informal reserves in that land - and I won't go on and on - if we pare that back to the real land which is actually harvestable we have about 400 000

UNCORRECTED PROOF ISSUE

hectares, so there is already 400 000 hectares Forestry Tasmania has to manage for fire protection processes as part of the estate.

As to your question, Ivan, about isn't that the reason, product being sold in its entirety - to use the beef-cow analogy, you need to sell the mince as well as the prime sides - is not the only component. There are a number of components which Forestry Tasmania contributes to the estate in Tasmania.

Mr DEAN - Minister, I hear what you are saying and I understand that Forestry has all these other issues and other management processes that they are responsible for and so on that do not return a profit or are not money-making concerns. However, my question was - and I understand the chairman to have said that the product itself that you are selling, the contracted timbers and native forest timbers, even plantation timbers, are not provided any profit to Forestry Tasmania at all just in themselves. That side of the business is not returning a profit and is barely covering costs, or is not covering costs, including transport and all of the other costs associated with just the timber itself - the logs, the plantation timber itself.

Mr HARRISS - Bob made it very clear at the commencement of his answer that with the high-quality saw log there is profit and with peeler provision, profit.

Mr ANNELLS - Where the problem lies, and has for a long time, is in the residues of the pulpwood, what ends up at the woodchip market. The woodchip market has been very poor. The Australian dollar has been very high, it is much lower now, thank goodness, but it has been very high and there has been a lot of competition and a lot of damage done to Tasmania's export reputation in key markets as a result of the Gunns failure.

It should never be forgotten that Forestry Tasmania was confronted not many years ago with losing half of its income in one week. When Gunns announced it was ceasing to accept native forest product it reduced Forestry Tasmania's income by half. We have been struggling, as any business would, to adjust to the new reality that we have only half the income and not even that because, quite frankly, through the Gunns years the woodchip market was very buoyant and there was a lot of money being made, not only by them but by Forestry Tasmania as well. Times are very difficult in the chip market but they are getting better.

We are quite pleased with the way trends are going, but it is not generating the cash we need to make this business whole. Are we heading in the right direction? Absolutely. Will we get there? We are very confident that we will. It will not be an easy task but we have made considerable strides in getting there in the last year and we still have another 18 months to go.

CHAIR - That was the point of your question: how long before you can see the business becoming profitable as a whole?

Mr DEAN - That is very clearly it. With specialty timbers, is there a profit returned to Forestry Tasmania?

Mr ANNELLS - It depends who you ask.

Mr DEAN - That's why I am asking you. You are the chairman and you ought to know - and with the minister here I would thought we would get the truth.

Mr ANNELLS - I certainly hope you would.

Mr DEAN - I would hope so.

Mr ANNELLS - I will flick it to my chief executive.

Mr WHITELEY - With special timbers, some portion of it is profitable and others it is done as a CSO. Things like blackwood swamps and those sorts of things are really profitable. Wood that is picked up associated with native forest harvesting is profitable in the sense that roading has been provided by an outscale operation. Things like Huon pine aren't profitable in their own right. We receive some assistance in recovering Huon pine - and it varies. Within our operations there is a profitable component and another component that requires some support.

Mr DEAN - Why can't it be profitable? It's a very sought-after timber worldwide. The users of it tell us they are paying higher prices for it where they are getting it from - obviously a lot of it through Forestry Tasmania. Why is it not possible to make it profitable in the circumstances - Huon pine, for instance?

Mr ANNELLS - Basically because the market will only pay a certain price. It is not an inexhaustible or elastic price mechanism. Huon pine is harvested like a lot of specialty timbers, as a by-product of our main activity. At the moment we have very significant costs for roading and other establishment costs that if we try to apply it against Huon pine, for example, would take it beyond the reach of all but the very few. We choose to sell special species timber at what we think the market will bear, but we do not seek to gouge in that process because to do so, we think, would lead to more bad publicity and, quite frankly, the market would simply dry up until we reduced the price again.

I have a lot of confidence in our people who are setting the price for this sort of stuff. You will always be able to find examples where people say, 'You could have got more for this or that'. That is why we set up Island Specialty Timbers, much criticised in certain places, but it was a genuine attempt to bring some stability into the marketplace and to test the marketplace pricewise on a more regular basis.

Mr FINCH - In respect of the plantation industry, I am not getting a positive vibe about this process - the plantations, the handling of them, the selling of them. We talked before about scoping, and that it is continuing to see where we might go with this. We then hear of all the other influences that are affecting the viability of the plantations. Who is doing the scoping, and will that be a lifelong job? Will we get to a situation where a decision can be made about the plantations and in light of the native forestry industry heading south - or woodchips - wouldn't it be better to hold on to our plantations and have that as the future for Forestry Tasmania? I would like to hear about the scoping - who is doing that?

[10.15 a.m.]

Mr HARRISS - Your question is premised along the lines that this is a never-ending process, but as Bob has said earlier, there are market sensitivities. You have to bring this product to the market and maximise the opportunities for the sale.

Yes, I have referred to scoping. As Bob has also said, the plantation asset, or the plantation estate, is dispersed. It is no use saying to people out there, 'We have however-many thousand hectares of the plantation estate available for sale. Come and give us your price'. A proper

UNCORRECTED PROOF ISSUE

process does need to be followed to identify just what component of the estate needs to be brought to market to satisfy the debt funding component of Forestry Tasmania. That is not a process that you could push a button and produce a solution to tomorrow. It is a complex estate we are talking about. Forestry Tasmania is in the business of selling trees. This is bringing the trees to the market.

We have said a number of times that it might only be the unpruned, unthinned pulp trees that might need to be brought to market. That would be a good situation. That completely preserves the pruned and thinned plantation estate - which, as Steve has said - through a proper testing process, provides the solid wood product into the future. To say, 'To keep all of the plantation estate because there is a market out there, and the native forest residue product is heading south', that is not true either.

We are not selling native forest woodchips out of Tasmania because there is no market. There is a buoyant market. I do not know whether you have a suggestion as to what a process might be if it is not through a due diligence scoping process to determine what component of the estate ought to be brought to the market.

Mr FINCH - Who is doing the scoping?

Mr HARRISS - FT will be providing, as Bob has said, a data room that will provide the information about the estate, where the plantations are, what quantities, and where. Treasury will be overseeing that process as well with - I think it was Chris who said earlier - the engagement of a consultant, because it is a complex process to identify what is available. FT needs to have input to that, as to its best business assessment as to what the business is likely to need over this year, and the next financial year, to fund the business. The best business assessment they can make.

Mr FINCH - This reflects the difficulty Forestry Tasmania might be having in progressing into the future - that there is such a confused market out there, or a confused operation as to prices, markets, what is of value, what is to be saved, and where dollars might be made. It seems that it is very difficult for Forestry Tasmania to plot a course into the future.

Mr HARRISS - I could go there in terms of confused market. There is no confused market as to high-quality sawlog, peeler billets, and the like. There is a defined and well-recognised market. This process, the sale of the plantation asset, needs to be properly thought through. Again, I come back to my final comment previously that the best business assessment by Forestry Tasmania factors into all of that as to what gap is needed to be funded.

Mr ANNELLS - The other thing that needs to be understood is that a proportion of these plantation assets are located in the south. I do not have it off the top of my head what it is, but around a quarter of the plantation asset is in the south. Should the EOI process for southern residues that is being undertaken by Treasury come up with a solution, they then become quite valuable assets. If there is no solution that enables you to export woodchips out of the south, those plantation assets have much less value. That is one of the things we are waiting for. We are waiting for this EOI process. We are not part of it. We are waiting to see what it produces. That will have a material impact on what the value is we have to sell. If we have to effectively exclude our southern plantation asset, that is just another calculation that has to be done.

You are absolutely right. This is one of the most complex businesses I have ever been associated with. There are none of the normal predictable elements to it that you would hope to

see. It is a very difficult business to keep on top of, but we are in a better place to do that now. We have a clear direction from Government, a clear understanding of what the challenge is, and nobody in Forestry Tasmania has any delusions about what is required of it. We need to get on with it, and that is what we are trying to do.

Ms RATTRAY - I know you want to move on, but I cannot understand - and this is a question for the minister - we are subsidising residue to the tune of \$5 million up the highway right now. They are public forests. Why isn't Forestry Tasmania and the Government using that subsidy to get something for the residues in the south? They belong to the state already. They belong to FT. It is up to the Government and Forestry Tasmania to come up with a solution for the residues, not stand around waiting for private enterprise to come forward. They are hanging back because they are not sure where we are going. Do you understand, minister? It is very frustrating to sit back and watch it.

CHAIR - It is not strictly FT, but you might tell us where the EOI process is at.

Ms RATTRAY - I am sorry. It always does my head in.

CHAIR - It is not just Forestry Tasmania that is involved. It is also all the private forest owners who are not harvesting because they do not have a solution for their residues.

Ms RATTRAY - It seems such a waste to be subsidising to that tune - for how long now? This is the second year, so that \$10 million could have been put into a residue solution.

Mr HARRISS - From a superficial standpoint, it might seem there is an easy solution, but there could be a number of components. As everyone here is aware, with the EOI process, with 19, 15 now proceeding to the request for proposal stage - that is the detailed business case - when those proponents will have access to the data room provided by Forestry Tasmania, it could be a component from TasPorts. Again, it underpins the complexity of such a business. It is not an easy process to say, 'Go and spend \$5 million, and we will build a new port -

Ms RATTRAY - It would be a good start.

CHAIR - It is \$5 million every year.

Mr HARRISS - and we will export from a port with that facility'. The Government has made it clear the preference should be for onshore value adding of our residues, if we can get to that situation. We do not want to keep exporting chips in huge quantities, but it is not a matter that you would just snap your fingers and have an immediate solution.

CHAIR - You have always said that that is a long-term solution, but in the short term - the next five years - it would be good to have a southern export solution. You have said this yourself many times.

Mr HARRISS - There will always be a market and a demand for some level of woodchip being exported for paper production elsewhere. It is not a simple process to come up with a number of solutions to the residues issue in the south but it highlights the damage that was strategically and specifically done to the industry with taking out Triabunna. People knew exactly what they were doing.

CHAIR - Yes, but it is done; we cannot undo that.

Mr HARRISS - I understand that.

Ms RATTRAY - Minister, your Government let that sale proceed and that port was sold for \$300 000. That is a disgrace.

Mr HARRISS - I will take that as a statement.

CHAIR - We could ask the question - is that not a disgrace?

Mr HARRISS - It is a matter about which TasPorts made a commercial decision to put that facility on the market. TasPorts is entitled to assess - and there were assessments made - against propositions for the purchase of that by others.

CHAIR - They are a government business enterprise which can be guided by the ministers and the Government. If the Government had said, 'This is a strategic port, we really would rather you did not sell it', they would not have put it on the market.

Ms RATTRAY - A committee of this parliament made that recommendation from their inquiry as their first recommendation - do not sell the port.

Mr HARRISS - The opportunity for access to that port, people understand, was lost when the access became landlocked because of the sale of the former Gunns land in its entirety, thereby denying access to the port. That opportunity was lost then.

CHAIR - Not necessarily permanently, though; you can always buy things back. Things do change. It is a dynamic industry, as you keep telling us. Are you finished on residues?

Ms RATTRAY - Are we going to get any more information? We have about 15 pie-in-the-sky ideas out there.

Mr HARRISS - To be fair, Chair, I am not going to let that comment from Tania pass without a rebuttal. She said 'pie-in-the-sky'. They are not pie-in-the-sky. These are serious business people who want to contribute and have an opportunity to participate for the solution to this problem which the industry has inherited. They are not pie-in-the-sky. They are serious business people. I do not think we ought to be using that kind of language to suggest that business people have not put their hand up, because they have a confidence that they can contribute to the solution.

Ms RATTRAY - Well let's get on with it. It has taken far too long.

CHAIR - That is a fair enough comment, minister, but the community broadly is very concerned about how long this process is going to take. When are we likely to hear some of these expressions of interest come to the next stage, some fruition? Nobody knows, apart from yourself - and you may not - what the expressions of interest are and when. That is really the frustration, I think.

Mr HARRISS - We have been public about the broad range of categories that the EOIs fit into, from biomass to pellets to biochar to energy generation, both small and large scale. That is

UNCORRECTED PROOF ISSUE

on the public record. We have engaged with Treasury's oversighting Deloitte, because it is important that there is a probity process going on here. I do not get involved, and neither should I, with the expressions of interest. Neither should people be able to come to my office and lobby as to the robustness of their proposal and say, 'We've got a deal too good to pass up, just get on with it and let us proceed'. The current final stage, the request for proposal stage -

CHAIR - Closes when?

Mr HARRISS - The business cases at the latest will need to be in 17 February; that is the latest date.

CHAIR - At least we have some date.

Mr HARRISS - It could be that if people get their business case advanced and submitted to the consultants prior to that, an assessment could be made against that.

[10.30 a.m.]

CHAIR - I was at the Australian Bioenergy Conference in Launceston earlier this week and a number of proposals for using biomass were canvassed there, a lot of papers. The end result, however, was that all those papers basically said, 'These are possibilities but at the moment none of them currently have a financially viable case'. Let us hope that something comes up.

Mr VALENTINE - With regard to the residues and the solving of this issue, how is that impacting on Forestry Tasmania? We are here to talk about Forestry Tasmania rather than what -

Ms RATTRAY - I know, but it is \$5 million last year straight off their bottom line.

Mr DEAN - When is a decision expected for whoever might take the product forward? Is that expected in 2016, minister?

Mr HARRISS - Yes, with 17 February being the last possible date for people to get their RFPs in. If they have their business case well advanced and they get access to the data room and can close the loop on that, they could present that RFP earlier.

Mr DEAN - So in 2016 we can expect to know where we are going with that?

Mr HARRISS - Yes.

Ms RATTRAY - You could potentially add two more years for a build -

CHAIR - Product needing to be sent north?

Ms RATTRAY - Yes. Would that be a reasonable time frame to expect two more years following that process?

Mr HARRISS - I would not have thought so, but I should not speculate either because, of the 265 000 tonnes from the forest residues, the harvesting residues, going north, if there was a solution to take 50 000 of that very early and it could be an easy process, you would close that gap. Do not take the \$5 million as being the continuing expenditure for that process because we

UNCORRECTED PROOF ISSUE

just do not know in these expressions of interest and the proponents putting them forward what component of the residue they want.

Ms RATTRAY - I just hope they become pie on the ground and not pie in the sky.

Mr VALENTINE - With regard to the \$5 million off the bottom line, wasn't that basically a grant from the federal government to assist with that process? Has that all run out?

Mr HARRISS - Yes, that was from the Tasmanian Forest Agreement. That was part of the process in recognition that Triabunna had gone.

Mr VALENTINE - So that is now gone?

CHAIR - That stopped 18 months ago. A supplementary question to this, minister. What is happening? Are logs from the forest going north?

Mr HARRISS - Yes.

CHAIR - Are you also sending woodchips from sawmills up north?

Mr HARRISS - Yes.

CHAIR - Are they private sawmills, and why is Forestry Tasmania subsidising that?

Mr HARRISS - Some of the logs from the harvesting process go by rail and some by road. With the processing or sawmill residue, that is recognition that the export facility was taken out but we are talking about the State Forest, if I can go back to an old term. We are talking about processing wood from the State Forest which was likewise affected by the Tasmanian Forest Agreement. Previously there was a contribution to the transport effort north for the processing residues from sawmills in recognition that the State Forest resource had been challenged because of Triabunna being out. That was the previous government.

CHAIR - I cannot understand why, after processing by sawmills, FT has to fund the woodchips going north. That does not happen to other private sawmills. There are private foresters who are not harvesting because they cannot afford to send their residue up north. Some are and some are not; I do not understand.

Mr HARRISS - It goes back to what I just said. It recognises what has been inherited because of the attack on -

CHAIR - But most of our sawmills get state forest supply, don't they?

Mr HARRISS - We are talking about residues from the 137 000 cubic metre supply from the state forests of high quality sawlog.

CHAIR - So all the sawmills that get that supply get their residue freight costs subsidised?

Mr ANNELLS - As the minister said, this used to be paid from under the TFA. There was an allowance, I forget the precise number, but around \$1 million set aside for transporting sawmill residues. When that ran out the Government decided that the program needed to continue. I do

not have a problem with that - with no southern residue solution. The sawmillers were in great difficulty on this matter, even though some of these residue transports are in the north and the north-west, but the bulk of it is in the south. The Government decided that the program should continue, and we agree with that it did need to continue. They requested that the board agree that we would pick up this cost. The effect of that increases our borrowing requirement and to some small extent will increase the requirement for us to sell plantations to cover the increased cost. The amount per year is about \$640 000; over the two years that will make the sum total in the order of \$1 million to \$1 million and a bit. In the greater scheme of things it is no big deal for us. We would rather not? Of course, but the Government did not tell us; they asked us and the board said yes.

CHAIR - It does not seem fair that private sawmillers cannot get it, but ones who have Forestry Tasmania products do.

Mr HARRISS - At a time when the Tasmanian Forest Agreement money had expired, the Department of State Growth picked up that tab for a time. I cannot be precise about the time.

Mr WHITELEY - That was up to 30 June in the year just gone. It is in the current year that we are talking about; FT picked that up from 1 July.

There was a question about a line item -

Ms RATTRAY - Yes, page 100, \$9.5 million.

Mr WHITELEY - Yes, 'other sales costs'. That is principally the land base part of exports, so it is Toll chipping - when we get various people to chip the logs before woodchips are exported. It is Toll chipping, which we get done by Smart Fibre at Bell Bay and at Burnie. That is a contract service turning the logs into chips. It is the management of the chip pile, the wharfage and those sorts of things. The 'freight' is the shipping, but this is all the bits between logs and getting them onto the ship.

Ms RATTRAY - It should be better identified in the annual report.

CHAIR - Is that most of the \$9 million?

Mr WHITELEY - Yes, that is the bulk of it. There is a range of things in there about yard management, but the bulk would be Toll chipping and associated wharf use and those sorts of things.

Ms RATTRAY - No wonder Toll is doing well.

The committee suspended from 10.39 a.m. to 10.55.

CHAIR - Ms Rattray introduced it earlier about employee cost but there are more things to be asked there.

Mrs ARMITAGE - I will start with general management team remuneration. Minister, we all know that costs have been restricted and the public service has had losses and cut-backs, 2 per

UNCORRECTED PROOF ISSUE

cent, I believe. Is the Forestry general management team restricted to the 2 per cent pay rise that all other public servants were restricted to for the last financial year?

Mr ANNELLS - Yes.

Mrs ARMITAGE - The annual report does not confirm that and the figures are sitting here. In 2013-14, the CEO received \$302 000 plus a short-term incentive of \$26 000. In 2014-15 it went up to \$313 000 which, on my figures, is about a 3.5 per cent increase.

Mr ANNELLS - You need to look at the total. The total remuneration went down.

Mrs ARMITAGE - You are talking about the total?

Mr ANNELLS - Yes.

Mrs ARMITAGE - I am talking about one person.

Mr ANNELLS - Mr Whiteley's total remuneration went down.

Mrs ARMITAGE - That was because the vehicle was devalued. I am talking about the salary in dollars. When you look at us, as politicians, you look at our salary, you do not look at vehicles and other things. I am asking the salary figure, not the end total when you devalue a vehicle from \$29 000 down to \$7 000.

Mr ANNELLS - I can get this in detail.

Mrs ARMITAGE - I am generally asking if you are restricted to 2 per cent.

Mr ANNELLS - I am not sure what movement between band or whatever, may have gone on. The important thing is that we have reduced our general management team from eight people to six as part of the process of reducing our overhead over time and it does take time. It is always getting away from you because there are always salary increases being applied.

Mrs ARMITAGE - That is no problem. I was asking about the 2 per cent because it did not add up to me. While agree that you may have lost people -

Mr WHITELEY - In the first year of my employment I was made an offer which I accepted and then Treasury guidelines were brought out as to salary ranges for various places. My salary was increased to the minimum of the range. It now falls into the range rather than being below the range.

Mrs ARMITAGE - It was not a percentage increase?

Mr WHITELEY - No. It was bringing my salary into the band at the lowest possible level.

Mrs ARMITAGE - Can you let us know the KPIs for the term incentive plans because I notice the CEO is the only one who has received an incentive payment. Do you have guidelines for that?

Mr ANNELLS - Do we have KPIs, absolutely. I do not have them here.

UNCORRECTED PROOF ISSUE

Mrs ARMITAGE - Does the board assess whether someone meets the KPIs?

Mr ANNELLS - The board assesses the KPI process. It is a rigorous process and it is getting more rigorous each year. There were a set of KPIs for the chief executive and there are rigorous guidelines on how you apply bonus provision. This is the only organisation I am aware of where the only person eligible for it is the chief executive. No other member of the senior executive team has access to bonus provisions. Personally, I would prefer to see it go further into the organisation.

Mrs ARMITAGE - You probably cannot afford it, I would not have thought, Forestry at the moment.

Mr ANNELLS - We cannot afford it, so that is the short answer.

Mrs ARMITAGE - Salary maintenance - it was mentioned by the member for Apsley that maybe higher level staff are doing lower paid jobs. How many staff would you have currently on salary maintenance? That is, staff that may have been on a particular level that may have to stay on that level for a certain period of time before they can drop down. Do you have any staff on salary maintenance?

Mr WHITELEY - We have bands within our organisations. Within people's position description they are appointed to a particular level against a position. Within that, some of those positions have a range, so they can progress based on skill.

Mrs ARMITAGE - Do you have salary maintenance?

Mr WHITELEY - Salary maintenance being?

CHAIR - That if somebody is doing a lower level job they have to continue to be paid at the rate that they were.

Mrs ARMITAGE - Even though they are no longer doing the band work they were doing. That was mentioned by the member for Apsley, that some may not be doing their previous job, but salary maintenance means because you are employed at that level, you have to be paid at that level for - would it be 12 months - even though you might be doing a lower level.

Mr WHITELEY - Chris might know the details, but I think there are one two people who had grandfather arrangements but an insignificant number. There was no significant number.

Mrs ARMITAGE - So you do have people on salary maintenance at the moment?

Mr BROOKWELL - Through the redundancy process, we have to comply with the enterprise agreement. There was a formal mechanism for redeployment. We have one or two circumstances where people unfortunately found their positions redundant and applied for a lower level so the provisions of the enterprise agreement kicked in. There is a transitional period, but essentially the remuneration for those individuals lowers to the new line.

CHAIR - So the period of time is exactly what Mrs Armitage is asking - how long?

UNCORRECTED PROOF ISSUE

Mr BROOKWELL - I think it is 12 month's transition.

Mrs ARMITAGE - One last question regarding the board. One of the things that your Government minister was doing when they came in, was looking at boards and reducing costs of boards. It is a substantial cost for the Forestry Tasmania board. Has it reduced in number? If not, are you likely to look at the Forestry board and reduce numbers?

Mr HARRISS - All boards are constantly under review. The Treasurer reminds all stakeholder ministers regularly to do so.

Mrs ARMITAGE - Has this one been under review?

Mr HARRISS - Geoff Coffey's term expired 30 June, from memory. At this stage Geoff has not been replaced.

Mrs ARMITAGE - How many members on your board, six?

Mr ANNELLS - We have five members on the board at present. Ross Bunyon was the director who changed from six to five. There is currently a renewal process, so other directors do not finish their term and they will be replaced.

Mrs ARMITAGE - How many members do you normally have? Do you normally have six? If you now only have five, is there a need to replace that board member? Can you operate with five? Are you looking to review your board as in other boards have been cut?

Mr ANNELLS - We did not replace Ross, but we have added Tony Ferrall.

Mr FARRELL - At no cost to FT.

Ms RATTRAY - You have paid directly to Treasury the cost of Mr Ferrall.

Mrs ARMITAGE - It is only \$6 000, compared with the others.

Ms RATTRAY - It is still a cost.

Mr DEAN - You are talking about almost half a million dollars.

Mrs ARMITAGE - It is a considerable amount. That is why I wondered, when the Government is looking at cutting other boards. We have had discussion on some of the boards that have been looking to be cut. You have not answered me yet, minister. Have you looked at, or has your Government looked at, a review of the Forestry Tasmania board?

Mr HARRISS - Going back to -

Mrs ARMITAGE - You were saying the Treasurer wants it, but have you done it?

Mr HARRISS - Going back to last year when Ross Bunyon's time expired, we have not replaced Ross, so we are actively applying that policy position of reducing numbers.

CHAIR - So technically you are going from seven to six.

Mrs ARMITAGE - No, six to five, then with the other lady -

CHAIR - No, because there is one still to be replaced, Tony Ferrall's replacement. So with Tony Ferrall, that is still only five, is it?

Mr HARRISS - We have the people's names in front of us somewhere. Five permanent board members, supplemented pro tem by Tony Ferrall. That was post the review of Forestry Tasmania by the steering committee. The Government has always made it clear that was a temporary appointment. With Ross Bunyon's departure -

Mrs ARMITAGE - Is he looking to be replaced?

Mr HARRISS - No, from six to five.

Mrs ARMITAGE - Next year we will see there will only be five members, plus Tony Ferrall. We will not see the replacement of Mr Bunyon? Do you have any females on the board?

Mr HARRISS - Yes, Christine Mucha. The Government's policy of having a target of 50 per cent female participation on boards -

Mrs ARMITAGE - You are going to have to have a few changes, then.

Mr HARRISS - It is a target.

Ms RATTRAY - I think I lost my opportunity when I retire.

Mr HARRISS - The Premier has made it clear, and he challenges us regularly about proposed appointments to various boards and positions within Government, that we need to consult the women's register.

Mrs ARMITAGE - I am more concerned with fees than I am of gender, as long as people can do the job.

CHAIR - One less is almost 20 per cent.

Mrs ARMITAGE - Absolutely. It will be interesting to see next year. I will not hold the questions.

Mr DEAN - Minister, with a struggling organisation - and clearly it continues to struggle - do you believe, I think it is close to half a million dollars for a board now in the current situation, I think it is \$400 000, last time I looked at it -

Mrs ARMITAGE - \$365 000. \$418 000, sorry.

Mr DEAN - Do you believe that that is a reasonable payment for the board in the circumstances that Forestry Tasmania finds itself?

Mr HARRISS - At this stage, yes. It is a complex and serious business contributing to the economy of Tasmania. You might recall at an earlier time the Auditor-General on his assessment

UNCORRECTED PROOF ISSUE

of the contribution of Forestry Tasmania to the economy of the state. The state was a net \$111 million better off every year for five years of having the business in operation. There is a net benefit to the state. I am satisfied with where the situation that the board is at.

CHAIR - We will try to keep our questions and answers short, so we can have more questions.

Mr VALENTINE - I am looking at something that is worth 10 boards, and a lot more than that, if we look if the non-current liability. I am looking at page 85 -

CHAIR - He does not mean it is worth more than 10 boards. He means it costs more.

Mr VALENTINE - I am talking about the value. Page 85 of your report. I am also looking at the Auditor-General's report, on page 43. Superannuation is \$5.8 million as current liabilities. Then you have non-current liabilities in super that are worth \$126.7 million. That is a heck of a lot of money, obviously to do with defined benefit schemes. I am interested to learn how you handle the transfer of employees across to DPIPWE. There are 42 staff that we transferred, if I am correct, to DPIPWE. How is that superannuation aspect handled, given the fact that Forestry Tasmania is responsible for 80 per cent of the super? Once a person retires, you are also responsible to continue to contribute over time.

CHAIR - Either lump sum, or -

Mr VALENTINE - If it is lump sum that is a one-off, if you like. Going forward, if they have chosen to have a pension, then it is an ongoing commitment into the future until they or their partners dies. How have you managed that? Has some of that liability been transferred to another government department, rather than Forestry Tasmania taking up that liability?

Mr WHITELEY - That particular process - all of the people who transferred across to DPIPWE, the 43 people you mentioned, transferred across with all of their entitlements transferred. That was removed from Forestry Tasmania. With the individuals, all of their entitlements accrued whilst at Forestry Tasmania remained with them with their new employer. That liability was removed from Forestry Tasmania.

Mr VALENTINE - That is only one part of the equation, is it not? Once they retire -

Mr WHITELEY - No. That has been removed from Forestry Tasmania.

Mr VALENTINE - No. That liability you are talking about - accrued superannuation fund - that means you are no longer responsible. If they retire in DPIPWE, you are not responsible for the number of years going forward they served with you. Is that not a transfer of liability to DPIPWE? Not cash component, but future liability. I would like to know what proportion of that was future liability. If you look at your overall net position, you are talking about \$30 million. Your underlying loss last year was \$30 million, and it is now \$25.62 million. Into the future, that means your liability for future payment of that superannuation in the event they retire - not if they are keeping their job, but in the event they retire - has been transferred to another government department without a monetary transfer.

Mr BROOKWELL - The rules in relation to the RBF scheme for a government organisation is covered by the regulations. Whilst the transfer of the 42 pre-dated my involvement, what

UNCORRECTED PROOF ISSUE

ordinarily happens is that if an employee moves from one government SOC or department to another, the new employer has 60 days to request, via RBF, for the original employer to transfer the funds for the benefit that was accrued up to the time for the period of service.

Mr VALENTINE - That is for the employee benefit. I am talking about the liability of the department - or in this case Forestry Tasmania - to contribute to their pension going forward once they retire. I am not talking about monies that have been accumulated by the employee and the employer contribution that goes into that and that is transferred. I can understand that process. What I am talking about is when they retire. If you work for a government department, they have to continue to pay. That is what the non-current liability is, \$126 million for that retirement.

Mr BROOKWELL - When an employee retires, it is the employer at the time of retirement who is responsible for the payment. The \$126 million of liability that Forestry Tasmania is presenting is essentially FT's obligation for current employees who are part of the scheme, pensioners who have already retired that we are paying a pension to, and for people who would have left Forestry Tasmania's employ and not transferred to another government organisation. There are three types of individuals we have a liability for.

Mr VALENTINE - But you are talking about hard cash.

Mr ANNELLS - No, I am talking about a liability. That is a liability you are quoting.

Mr VALENTINE - Yes, and that is worked out by the actuary, is it not?

Mr ANNELLS - It excludes any provisions for those 42 people, because once they moved across to DPIPWE, DPIPWE takes their obligations going forward forever. That is the way in which Treasury deals with any transfers between government departments. That \$46 million relates to the people we still have working for us, or have retired, et cetera, but it does not include the 42.

Mr VALENTINE - I understand that. I am talking about future liability. It is actuarial, so it is not hard dollars at this point in time. It depends on when people retire and what the draw is on those retirement funds. With that transfer of 42 employees to DPIPWE, it improves your bottom line very significantly - not only today or in the financial year 2014-15, but it saves you that forward liability. That does not necessarily reflect in the underlying position that you have of \$30 million. If you took into account the 42 employees who have transferred -

[11.15 a.m.]

Mr ANNELLS - It is a prior year.

CHAIR - It is the previous year.

Mr ANNELLS - I understand what you are trying to get to. The issue here is not that number, it is what we have to pay in any one year. At the moment it is -

Mr VALENTINE - It is \$5.8 million.

Mr ANNELLS - If those 42 people had stayed with us and some had retired, then that \$5.8 million would have been \$6 million or \$6.1 million or whatever, so that is absolutely true.

UNCORRECTED PROOF ISSUE

The fact is they went and they took all their entitlements and obligations with them to DPIPWE. They are the rules we operate under.

Mr VALENTINE - I understand that. I am saying there is a certain portion of that transfer that has gone across of liability that improves your bottom line.

CHAIR - But it happened the year before, it is not in this financial year.

Mr VALENTINE - I understand that. The 42 happened in 2014-15. We are talking about the 2014-15 financial year, aren't we?

CHAIR - No, they happened the year before.

Mr VALENTINE - In 2013-14? Okay. Even so.

Mr ANNELLS - The fact is that no matter whether we have the 42 in or out, we have a very substantial hit to our bottom line that relates to the pensions we have to pay going forward. We have run and lost that battle with Treasury that perhaps they may care to take that from us. I understand and the board understands only too well that this would set a precedent so it is not going to happen and we have just to live with it. In trying to break even, we have to factor in that that number is probably going to go up for a while as more people retire - we have done all sorts of calculations on this - and then it will start to drop again.

Mr VALENTINE - Does your \$25 million of underlying loss take into account the \$30 million equity injection? Or was that pre the equity injection?

Mr ANNELLS - Pre the equity injection.

Mr BROOKWELL - The \$30 million equity injection occurred in this current financial year of 2015-16 and because it is an equity injection it would not impact on profitability.

Mr VALENTINE - No, but it will come up in the following annual report for 2015-16.

Mr BROOKWELL - Correct.

CHAIR - It is an issue, and you have pretty much answered it now, Bob, but the point is that you have legacy costs of past employees. Your workforce is now much smaller than it was, even not counting the 42 who went, and with the redundancies you have paid and the people who have retired you have a big bill for lump sums or people who get pensions for a long time to come, for employees you no longer have. You say you have asked the Government whether they would like to take this on.

Mr ANNELLS - Yes, and they declined, surprisingly enough.

CHAIR - I guess it is not the only government business enterprise that has this problem.

Mr ANNELLS - Exactly, it is a common problem.

CHAIR - But it is going to be an ongoing liability.

UNCORRECTED PROOF ISSUE

Mr ANNELLS - Yes.

CHAIR - Your current operational costs have to cover something that happened in the past.

Mr HARRISS - Particularly in regard to the defined benefits scheme.

Mr VALENTINE - It is a heck of a lot of money, \$126 million, to have to make in the first instance before you even think about making a profit.

CHAIR - It is. That is why we are asking about financials, because you have already told us it is currently \$5 million or thereabouts for transport costs that you rightly should not have to be paying. You are now talking about \$5 million or \$6 million a year for benefits. I guess that is what makes us ask if you can meet the policy objectives when you have those kinds of things.

Mr HARRISS - On the \$126 million, Chris can make a comment on that.

Mr VALENTINE - That is \$126.782 million.

Mr BROOKWELL - Yes. That is obviously identified as a non-current liability, but around two-thirds of that is the actuarial liability for the pension payments we are currently paying. We spend somewhere between \$5 million and \$6.5 million a year in terms of the pension payments and that contributes about \$130 million of the gross liability. Two-thirds of it is going out as \$5 million or \$6 million in cash each year.

Mr VALENTINE - So it's a paper figure, not a cash movement.

Mr BROOKWELL - Two-thirds of that \$126 million is going out as pretty constant \$6 million a year cash each year and then a third of the liability relates to the people who have not retired yet. We have a cash flow risk around that, which you alluded to. When people retire and take lump sums that is tough to fund. If they take annuities it is easier to fund if it goes for a long period of time.

Mr VALENTINE - I know you were saying it was in the previous financial year but the point I was trying to make before was that the liability still goes forward every financial year for people who retire. All I am saying is that liability, that portion of 42 people, has been transferred from Forestry Tasmania to DPIPWE and that improves your bottom line every year. The \$25 million as it is would be much worse if it did not have it. That is the point I was trying to make.

Mr BROOKWELL - Forestry Tasmania will have for the next 10 years the exposure to people retiring.

CHAIR - At least, I should think.

Mr BROOKWELL - The modelling shows that the actual costs tail off over the subsequent 10 years.

Mr VALENTINE - How many people on the defined benefits scheme do you have now still remaining in your workforce?

UNCORRECTED PROOF ISSUE

Mr BROOKWELL - Post-redundancy we have exposure to 80 members of the defined benefits scheme, of which around about a third we still employ. A number of those -

CHAIR - Two-thirds. Yes.

Mr FINCH - I would like to ask about the plantation platform joint venture. Is Forestry Tasmania now in total control there and what was the quantum to be paid to the joint venture partners to get total control of that?

Ms RATTRAY - And why did you want it? That's the biggest question.

Mr WHITELEY - I won't say it is a Dorothy Dixier but it is a good question.

The estate was established as a joint venture because Forestry Tasmania set it up, so whilst the joint venture owned all of the trees, Forestry Tasmania owned the pruned trees and the other 50 per cent, the pulp wood trees or the thinnings, were owned by the other parties. They wished to take out their trees when we thinned the plantation at age 10 to 13, so it suited an investment cycle for a pulpwood investor. The rest of the trees are owned by Forestry Tasmania. We pay to prune them and they contribute to our solid wood estate that we talked about before. Effectively somebody else assisted us with the establishment cost of those plantations. They were planted over a number of years and the owner of the pulpwood trees, which are taken out by thinning, is now taking their own trees away, if you like, so it is an arrangement where they take away their own trees and by virtue of that the joint venture is progressively extinguished because for each hectare that is thinned they have taken away their trees and the ones that are left are wholly owned by Forestry Tasmania. As the thinning program works through that, by the end of that they will have got all their wood and we will own all the remaining trees. That is the system that is happening at the moment.

Mr FINCH - When do you think that will be completed?

Mr WHITELEY - It is scheduled to be completed by June 2017. We entered into an agreement over a two-and-a-half year period for that to be worked through simply by them taking their trees away. Some of our plantation export activity is effectively us assisting other people to take their trees away, leaving us with the trees that we want.

Ms RATTRAY - Why are we paying them, then, if they've only assisted us with a joint venture and they're taking their trees anyway?

Mr WHITELEY - We realise the value of the trees. We are progressively owning 100 per cent of the joint venture so it is a structural arrangement that maybe Chris can talk about.

Ms RATTRAY - I don't understand; they're getting the value of their trees as they sell them.

Mr BROOKWELL - At the start of the agreement where we agreed to pay them out we are paying to increase our ownership of the JV from roughly half up to 100 per cent over the two-and-a-half year period. We have a liability in the books. In the balance sheet it is \$5.7 million which we have recognised, and on the other side of the coin we essentially have control of all of the trees in the joint venture and those have come through to increase the value of the forest valuation at 15 June.

Ms RATTRAY - Are they replanting the ones they're taking, then?

Mr WHITELEY - No. This is a thinning operation.

Mr BROOKWELL - We are in control of the trees now. In terms of the exit process, we pay the \$5.7 million over the next two years and we have control of the trees. That is one of the reasons why the forest valuation went up so much, because we have the structural change with the valuation of 100 per cent of the trees in that joint venture.

Ms RATTRAY - But you do not have 100 per cent of the trees because that joint venture has taken their share of the trees out along the way.

Mr BROOKWELL - One of the terms of the exit is that we do not have to use the trees in the original joint venture to sell to the joint venture partner, and we are getting the revenue for those shipments as we provide them.

Ms RATTRAY - Is that the best deal for Forestry Tasmania or is it for the joint venture partner?

Mr HARRISS - It is an appropriate deal for Forestry Tasmania. The explanation given by both Steve and Chris underpins that it is an appropriate management of getting 100 per cent of the estate.

Ms RATTRAY - One hundred per cent of an estate but there is not 100 per cent of the trees there; some have gone.

Mr BROOKWELL - It is probably inappropriate for me to say at this forum, but the forest valuation went up well in excess of the amounts we paid -

Ms RATTRAY - It is a good deal for Forestry Tasmania, in your view?

Mrs ARMITAGE - A couple of questions regarding safety. It was mentioned by the Chair earlier that you only met three of the nine safety performance targets. You mentioned that most of the injuries were relatively minor. What were the worst injuries? What do you consider relatively minor?

Mr ANNELLS - A lot of them were slips, falls and sprains and these things. I am using 'relatively' because unfortunately a lot of our people operate in a very dangerous environment.

Mrs ARMITAGE - How did FT do so poorly in workplace safety in an industry where safety is paramount?

Mr ANNELLS - I was coming to that. You asked me what the examples are. To be precise, we had four slips, trips and falls; two strains and sprains; two eye injuries; one manual handling; and one motor vehicle accident. They all caused lost-time injury. That means they had to be serious enough for a doctor to send somebody off for a period. When I say 'relative' I am using that word compared to what can happen in the forest where it can be absolutely serious; it can be fatal.

UNCORRECTED PROOF ISSUE

Mrs ARMITAGE - Of the 59 redundancies we talked about before, were any of those positions in the area of workplace safety?

Mr WHITELEY - We fully maintained our safety structure. There was no redundancy associated with reducing in any way our structures around safety.

Mrs ARMITAGE - In the annual report you state that the board and management have therefore developed and already commenced implementing a new safety strategy across the company and all our contractors. Can you explain what your new safety strategy is that hopefully will make you meet more than three of your nine safety targets in the next financial year?

Mr ANNELLS - We are making a range of changes. We have an increasingly difficult target because as we have reduced our staff numbers the number of hours you work in total, which is what you apply to give you the LTI figure, is a stretched target, making it more difficult.

Mrs ARMITAGE - You say you are implementing a new safety strategy, so I wondered what it was.

Mr WHITELEY - Part of it is structural, related to things we are measuring. We have chosen to measure a whole lot of early indicators. Rather than just have post-accident indicators we have put more energy into indicators of pre-incident.

[11.30 a.m.]

We have also increased our training and awareness. We have done things using smart phones and those sorts of things, where people report observations. We are really trying to get ahead of the curve rather than the traditional things you put into safety programs.

With our contractors, we have delivered coaching along with assessment. We have had people out there assisting contractors with their safety systems. With staff, a lot of it has been around cultural training as well, thinking about attitude rather than just skill. There is traditional training around manual handling and those things. Chemical handling and all of those remain. What we have really put more energy into is both preventive measures and cultural changes, and measuring as we go.

CHAIR - Roads is another major cost for the business. You have a smaller operation than FT used to have, but you seem to still have a lot of roads that you have not been able to divest. They might be classed as state infrastructure roads or council roads or whatever, but FT still seems to be spending a lot of money on that. Can you talk about that?

Mr HARRISS - That goes to a comment I made earlier regarding Forestry Tasmania's contribution to a whole range of measures around -

CHAIR - You give some CSOs for that?

Mr HARRISS - Indeed. Infrastructure Tasmania is conducting an audit, an assessment, of all the state road asset. Then there will be some assessments about who might properly have responsibility for that into the future.

CHAIR - The stocktake is actually happening?

UNCORRECTED PROOF ISSUE

Mr HARRISS - Yes. That has been initiated by minister Hidding. We regularly get requests to the Government to have a think about roads like Coolangatta Road, the road over Mt Bruny; Cockle Creek Road and many others around the state. Some of it is Forestry Tasmania, some of it is DSG, and some of it is council. Allan Garcia, Infrastructure Tasmania, is conducting that assessment.

Mr WHITELEY - There was \$1.23 million to assist in maintaining some of the roads, but Forestry Tasmania, by virtue of the roads that Gunns formally managed, acquired a huge additional asset or burden, depending which way you look at it, in road infrastructure. There were many roads been built over many years that had been dispersed through Forestry Tasmania in a number of companies, and effectively they have all reverted back to FT.

CHAIR - Do you have any idea of the cost?

Mr WHITELEY - It costs us around \$10 million a year between maintaining and building roads. There is a contribution from CSO for some roads. Clearly there is a structural issue the state has through various circumstances. As the minister mentioned, a strategic view of asset management for the state is an appropriate way to make some decisions. Along the way, FT is seeking to maintain roads at a reasonable standard to ensure safety and avoid environmental harm, but many roads are not being maintained to nearly the standard they have been when they were more actively used and managed by the industry.

CHAIR - Are those roads still needed? Are there a number of roads that do not need to be maintained any longer?

Mr WHITELEY - I think there would be some. Part of work being done through Infrastructure Tasmania is to have a look at infrastructure roads that are of broad community use and access to various places. People could think of some of those roads. There are other roads that are relevant directly now for forestry for carting wood. There is another set of roads that are needed for forest management or things like apiary access. There are a number of things that are required for other special uses that are forest management related, so it is fire management, apiary, access to certain places, and there may be some roads that can be put to bed. With the change of the land use classification, it is looking at which roads fall into which department.

CHAIR - So all the roads you currently maintain or make are being assessed in this infrastructure review?

Mr WHITELEY - We are doing some work on that. We are contributing to the strategic assessment and in the course of doing that internally we are applying a different standard across all their roads for our own management purposes, pending any other decision that might be made.

CHAIR - Do we have a date for when that might be completed?

Mr HARRISS - I will need to take that on notice.

Mr VALENTINE - Fire access risk is one of those criteria.

Mr WHITELEY - That is right. I said 'forest management' and that includes fire and apiary. There are a number of things there that are non-production related but clearly forest management related.

Mr VALENTINE - The beekeepers were concerned about the quantum of leatherwood trees that currently exist and were very keen to make sure that was not reduced because of the importance of that resource to their businesses. Is there any comment on that as to the reduction of the quantum of leatherwood in the FT harvesting processes and those sorts of things?

Mr WHITELEY - I was involved in a former life in a lot of work with the beekeepers to identify those areas that are most important for apiary. We did some very significant work in the Wedge and applied those principles elsewhere. The focus that has gone on is a joint assessment of FT and the beekeepers as to where the most significant stands of leatherwood lie and that significantly influences which areas we do not choose to harvest.

Mr FINCH - Is there any value in FT maybe putting in a leatherwood plantation?

Mr WHITELEY - It is not a current priority for us.

Mr FINCH - You've not had that suggestion put forward by the apiarists?

Mr WHITELEY - No.

Mr FINCH - Is it achievable?

Mr WHITELEY - We haven't considered it. Like any species, it has particular characteristics. Some of the comments we get, but not specifically in this case, have more to do with enrichment and whether there is any treatment there to encourage a particular species, so I am sure there could be some treatments there to enhance certain areas that were commercial. In the past the general comment would be that we have found it difficult to commercially grow plantations. We have found it is much better to manage the environment, possibly with some enhancement if it is beneficial.

Mr DEAN - This is in response to clause 44 of the TCFA. The state constructed 72 kilometres of new roads to improve access to selected areas of special timbers and to support the agricultural industry. The program was completed in 2007-08. Of the 72 kilometres mentioned, were any roads included in new reserves created under the TFA? If any roads were included in reserves, please advise the length of road resurface, class of road and the land tenure they now sit under. Were any of the special timber management units that these new roads were constructed for ever harvested? If so, please provide locations and details of such harvesting.

Mr HARRISS - I do not know whether we can provide the detail of that, Steve, but if you can.

Mr WHITELEY - That would be discoverable but it is certainly not something we have kept a specific record of. As to whether there were any areas added to the reserve system, the answer would be yes, but since that time we have simply focused on the PTPZ land and have not reviewed various things that have been transferred.

Mr DEAN - Is that information obtainable?

Mr WHITELEY - It would take some work; it is not summarised anywhere. It would be through a project for somebody to spend some time going back through those records. It is not

land that is currently managed by FT. It may be something DPIPWE could discover if it was relevant.

Ms RATTRAY - DPIPWE are good with maps.

Mr VALENTINE - We were talking about the Wielangta Road earlier during the break. There are a lot of people who would like to see the Wielangta Road improved for tourism reasons. I suppose you could make the observation that between Sorell and Orford there are very few businesses on that route that would suffer if the Wielangta Road was improved. Have there been any discussions with FT about assisting with the upgrading of that road for tourism purposes?

Ms RATTRAY - I reckon there has been some discussion with Michael Kent, according to my notes.

Mr WHITELEY - We have been asked for some information around that and I am not sure what the exact kilometres are, but I think there may be 1 or 2 kilometres of that road that is still managed by FT. To the extent there was to be a strategic view of doing some work on that road we would obviously need to contribute to that. It is a small portion of the road.

Mr VALENTINE - It could be a CSO payment from the Government though, couldn't it?

Mr WHITELEY - It could be. I think Alan and Infrastructure Tas have a view of finding some of those roads that are clearly difficult to manage now because they have been cut up into small segments with different owners, which makes it almost impossible under the current arrangements to get some decisions made and action taken to deliver more strategic outcomes.

Ms RATTRAY - It would be a good one for the Government to take over, I would suggest.

Mr VALENTINE - You would think it would probably have an advantage, I would have thought, from a tourism perspective.

CHAIR - Just in case you wanted a suggestion, minister, pass it on.

Mr VALENTINE - It is something you can pass on to minister Groom.

Ms RATTRAY - We will this afternoon. We might be able to weave that in to TT-Line.

Laughter.

CHAIR - Have we all finished on roads and beekeepers?

Mr VALENTINE - On beekeepers, with respect to regeneration forestry and what might have previously been old growth that has been clear felled, is there any attempt to make sure regenerated forest has a percentage of special species in it? I would put leatherwood in that as much as I would celery top and any other special species.

Mr WHITELEY - We have done some measurements and surveys over the years looking at the species mix. The Warra trials and various other things have picked up on those, so there is some public information around after certain treatments what the species mix is. That is discoverable if it is of interest to you.

Mr VALENTINE - Is there any chance of leatherwood being regenerated?

Mr WHITELEY - It does. Like any forest, it has had a history of fires and various things so what you see there is thousands of generations of forest which because of the environment have ended up with a particular species mix. Leatherwood, like all species, happily grows back. It is more to do with the rate at which some of these things grow. In that wet forest environment you get the full complement of species growing.

Mr VALENTINE - Although if eucalypts take over they reduce the understorey.

Mr WHITELEY - Because of the regeneration method with sowing seed you end up with that natural patchiness as well. In the end, within a natural environment you do get that mix of species coming through.

Mr VALENTINE - The variation.

Mr FINCH - Representatives from UNESCO were in Tasmania a few weeks ago assessing the management of the World Heritage Area in light of the Government's intention to allow some logging there. Has there been any outcome, minister, at this stage with that UNESCO investigation?

Mr HARRISS - No, not that I am aware. Matthew Groom and his department, given that it was a monitoring mission to assess the management of our World Heritage estate, is the minister responsible for that. I am not aware of anything, but they were only here last week. Kim advises me that it typically takes four to six weeks for even a preliminary assessment, and it was only last week that the monitoring mission was here.

Mr FINCH - What would you hope the outcome of that might be?

Mr HARRISS - Not pre-empting in any way, because they will, after their assessment, make their recommendations and comment as to how well we are handling and managing the World Heritage Areas. We will assess that when it comes through.

Mr FINCH - Forestry Tasmania had the opportunity to make a submission to that team?

Mr WHITELEY - No, it did not involve Forestry Tasmania.

Mr HARRISS - It was just that - a monitoring mission to assess the management of our World Heritage Areas. Forestry Tasmania does not manage the World Heritage Areas.

Mr WHITELEY - There were two sites visited by the group. One was some areas where Forestry Tasmania has assisted DPIPWWE regenerating areas that are now in the reserve, if they were formerly harvested coupes that are now part of the World Heritage Area. They looked at that with some of our staff who carried out some of that work for DPIPWWE. The other place our staff guided them to was some trials near Smithton that had been done in the 1980s, looking at various selective logging techniques in myrtle forests. It was point them to some research trials they could refer to, and some areas that had been regenerated in the World Heritage Area. Other than that, Forestry Tasmania formally made no -

UNCORRECTED PROOF ISSUE

CHAIR - Did they ask any questions about the agreement there currently is - if some special species timbers are needed, they may be taken out?

Mr WHITELEY - No. Did not ask Forestry Tasmania.

Mr FINCH - About toxic chemicals that FT wants to use, alphacypermethrin and fipronil. If your forest certification process refused permission, do you have alternatives to those chemicals?

CHAIR - That is part of your request, that those chemicals be allowed to be used?

Mr WHITELEY - The FSC and various certifications have process, which is around derogation, which is permitting the use of certain chemicals for a period with the intention of phasing out. This is principally plantation growers. At the moment, FT, whilst we are party to that, it is the larger plantation growers for whom it is most significant - do not have a viable alternative. This is related to insect attack, and the other is wasps. It is household chemicals, but it has been identified by FSC International. There is a process in place in seeking continuous improvement to try to find alternatives to using these chemicals, but in the meantime, seeking permission to use them whilst complying with the standard.

Mr VALENTINE - With regard to the leaf beetles and European wasps, how widespread is this problem for you? Is it across the state, or is it only in certain coupes or areas that you are wanting to target these European wasp populations and the leaf beetles? You might give us an understanding in that regard.

Mr WHITELEY - It is broadly across the state and it varies by year. As far as the insect attack goes, we have an integrated pest management system within Forestry Tasmania. Other growers may have a different thing. We only choose to use chemical and spray as a last resort, once we have demonstrated that population levels in a particular place. We do not do pre-emptive spraying, it is based on measurements of insect populations when they occur. That varies by year, and it varies around the state. Like all of these things, based on different seasonal conditions, it may vary significantly.

Mr VALENTINE - When you get really cold winters that might knock them back?

Mr WHITELEY - Yes.

Mr VALENTINE - The myrtle rust I believe can attack eucalypt. Is there an issue for you as a company?

Mr WHITELEY - No. The advice in Tasmania - because of the cooler climate - is it is likely to be less aggressive in terms of its spread.

Mr VALENTINE - You are not overly concerned about it?

Mr WHITELEY - We are certainly interested in it, but not overly concerned.

Mr VALENTINE - You have not detected it?

Mr WHITELEY - No, not on our land. It has been detected in Burnie. We have contributed to the control on those plants that it has been discovered on.

UNCORRECTED PROOF ISSUE

Mr VALENTINE - If it was active, it could be very devastating to your plantations, could it not?

Mr WHITELEY - In warmer climates, particularly.

CHAIR - Can we talk about Hardlam? Where are we at? I understand from Oak Industries - I was at their AGM recently, where they said they were not going to proceed with buying, making. Where are we at with at?

Mr WHITELEY - We would have talked to you about Hardlam. Bob would have talked about it - over a number of years - the work being done to develop Hardlam. In the last 12 months, it has been more low key from a Forestry Tasmania point of view, because of the process that Oak has been going through with its grant application. FT developed a product, did some R&D, demonstrated some use, did some market testing for flooring, stair treads, and various other things. In the last period, Oak has been seeking to develop its project. We have provided assistance to that.

CHAIR - They actually received federal government money for it, did they not? \$4 million, \$3 million.

Mr HARRISS - Over \$4 million.

Mr WHITELEY - \$4.4 million, I think. That has been their process. To the extent that they have sought advice, we have provided that, but that has been relatively minimal.

In the meantime, we have continued manufacturing small quantities of Hardlam in China. When we first started the process, we were exporting logs and getting them peeled in China, made into blocks, and brought back. In the last period we had the peeling done by Ta Ann. We had low-quality logs peeled by Ta Ann in the Huon, some material sent to China, made into blocks and brought back. In the course of changing Chinese block manufacturers, we have had to go through a QA process. There has been some material brought back for sawing into various boards from the blocks, to make sure none of that went to market until we were happy with the quality control. There was one factory we used that did not meet standards. We are no longer using them. The other one did, so there are small quantities of material coming back. As you say, Oak has now made a strategic decision that it does not wish to continue with that, so we will wind up that process.

CHAIR - I suppose my question is in relation to the fact that you spent considerable R&D effort on developing this product which, seems like a good product. I would hate to see it disappear. What is the future for the product? Are you looking for a private investor, private company? What is the future for Hardlam?

Mr WHITELEY - In his statement, the minister made it clear around the role of Forestry Tasmania. Part of what we are doing is dealing with Oak as a business. We have made sure we have supported them to the extent that they requested. The other one is the Government has set a scope of Forestry Tasmania's activities. That includes not being in manufacture and exports. We are transitioning out of that, with the hope it will be picked up by the private sector.

UNCORRECTED PROOF ISSUE

CHAIR - I will refer my question to the minister then, because if it is no longer something that Forestry Tasmania is going to do - but it is again one of those opportunities, is it not?

Mr HARRISS - Yes, it is a commercial opportunity given the work which Forestry Tasmania has done. It is also important to understand that such a product is produced elsewhere in the world. Credit to Forestry Tasmania for bringing forward the process. Given that my understanding, Steve, from a strength point of view, the Hardlam product is every bit as good as solid wood in some respects -

CHAIR - Better because it is more stable, is it not? Cannot warp.

Mr HARRISS - There could be a commercial opportunity. Forestry Tasmania at Southwood - I think you have all the relevant approvals from the council.

Mr WHITELEY - That was to support the Oak. We did a lot of work to support the industry taking on these things. Whether it be Oak, or another entrant, if they wish to capitalise on the R&D that has been done.

Mr HARRISS - As you know, Chair, given the application of residue material, there is potential opportunity.

Mrs ARMITAGE - I want to ask about firefighting and readiness for the bushfire season. I noticed on 9 November there were some news articles that said the southern Australian seasonal bushfire outlook from the Bushfire and Natural Hazards Cooperative Research Centre shows that more parts of Tasmania will experience more above-normal fire conditions than previously, including large areas of the north and north-east. On the same day it was revealed by the media that Forestry Tasmania had carried out just two of the 29 planned burns. Whether that is true or not, I would like to check. If it is true, why were so few of the planned burns carried out? Which areas were the two burns carried out in, for a start?

Mr WHITELEY - It is a slight misrepresentation. The planned burn program, the 29 burns, are planned for the financial year in both spring and autumn, with the bulk of the burns normally done in autumn. As we all know, this has been the driest spring on record and it simply was not appropriate to continue burning once the weather conditions did not permit.

The plans were done, the people and equipment were ready, the consultation had been done with neighbours and all of those things, but nobody was going to light fires in the driest spring on record. It was not two of 29 planned for spring, I think there were up to six that were available in spring subject to the weather conditions being right, so it was two of potentially six, but as always, when it comes to planned burning the conditions have to be right, otherwise you do not achieve your objective.

Mrs ARMITAGE - I understand that. With the fact that the conditions are not good to light a fire, what situation does that put Forestry Tasmania in with the coming fire season, the fact that you have not been able to do the burns?

Mr WHITELEY - It is around community protection. The minister might like to speak to this further, but the statewide fuel reduction program, which is tenure-blind, is intended to protect the community. Forestry Tasmania contributes, along with Parks, councils and the TFS. The whole program is about protecting communities. There has been a good effort put in in spring but

UNCORRECTED PROOF ISSUE

simply across tenures some of the burns Forestry Tasmania had planned on its tenure did not go ahead. We assisted the TFS and Parks with our people to do their burns, so there is not this silos view of things. Again, I think two out of 29 slightly misrepresents the preparedness.

Mrs ARMITAGE - I understand that. The preparedness is what I am asking about. With the summer we are looking to have, with the lack of water we are looking to have and the burns that we could not have, what sort of summer are we looking at? Are we prepared? Do you believe you have the resources you need should a large bushfire occur? Have enough burns been done for the protectiveness of the communities you are referring to?

Mr HARRISS - There are a couple of components to that. Steve has just mentioned that given the challenging conditions in spring you can only do what you can practically.

Mrs ARMITAGE - I accept that, but I wonder what situation that leaves Forestry Tasmania and the communities in.

Mr HARRISS - Steve can answer the matter related to Forestry Tasmania. I can discuss the broader state landscape.

Mrs ARMITAGE - We talked about the roads as well as the access. That all comes down to the money. Do you have the resources you need now to get in and do this?

Mr WHITELEY - The view I have from the statewide effort is that overall the spring burning program was successful.

Mrs ARMITAGE - Is it sufficient?

Mr WHITELEY - It is progressive, so it is not really about one year, it is across the landscape over many years. It all accumulates over time. This particular program was the first four years of what will need to be an ongoing program to be successful across the landscape. It is a bit difficult to say whether it is sufficient or not. It is really a progression that needs to continue.

As far as our preparedness for the fire season is concerned, each year there is an inter-agency group. We make sure we have our firefighters trained, as does the TFS with its volunteers and Parks. We all make sure we have resources to the extent possible. As I think we discussed with you another time, the loss of contractors out of the state is probably the thing that is most difficult to replace, the equipment operators and those sorts of things. FT internally has made sure we have a firefighting force that is equipped and trained and ready, as have the other agencies. We have put in particular effort to make sure we have the machinery on hand. The specialised equipment comes in from interstate.

Mrs ARMITAGE - So you have enough resources attributed to that capacity? Out of the budget you have adequate resources?

[12.00 p.m.]

Mr WHITELEY - Yes, and again, we are funded to do that. One of the things within FT is that there are funds provided by the state government, so we are not limited by funding. We are supported by the state government to prepare and equip for firefighting. There has not been anything to do with funding that has inhibited our preparation.

UNCORRECTED PROOF ISSUE

Mr HARRISS - That is FT's effort. As part of the broader statewide effort, I thought I had a figure in front of me, but I can provide it if you want in terms of the overall fuel reduction burning effort in the state as part of that interagency process that Steve spoke about, and the fact that it is tenure-blind. If the committee wants, I can provide details of the substantial fuel reduction burning process that has taken place. That sits again a government policy of \$28.5 million, I think, but I will get the figures for you as to the exact nature of that. That was in recognition of the fact that we need to take account of the fire threat in this state.

Mrs ARMITAGE - That is right, an increased fire threat, particularly with the hotter summers and less rain.

Mr HARRISS - Indeed, and that has been brought into sharp focus already. Minister Hidding has carriage of that but I can get you the details of the landscape that has been subject to the fuel reduction.

Mrs ARMITAGE - None of this has to do with the lack of staff or the cutbacks we have had with redundancies?

Mr WHITELEY - No, it is a well-resourced, well-equipped set-up and it has been successful within the constraints of the season.

CHAIR - Our time is supposedly up, but are you happy to keep going a little bit longer because I have a number of members who would still like to ask questions?

Mr HARRISS - We can accommodate probably for the break we had.

Ms RATTRAY - Minister, I want to ask about your intention to hang on to Tahune AirWalk and also the progress on the sale of the Hollybank Treetops Adventure, acknowledging you have already passed on the Dismal Swamp venture to DPIPWE.

Mr HARRISS - I am sure that Hollybank facility was recently settled.

Ms RATTRAY - Can we have the price that was sold for? I am sure it is not commercial-in-confidence.

Mr BROOKWELL - I am not sure if there is anything in the contracts that would make it commercial, but we certainly sold it without generating a loss in terms of our carrying value and we have all the cash.

Mr HARRISS - Let us check in case there were.

CHAIR - You might supply that to us if that is possible.

Ms RATTRAY - In the annual report it talks about Tahune AirWalk having a successful year, but successful in numbers does not necessarily equate to dollars. Can I have the figures on that and do you intend to hold onto that particular tourism venture?

Mr ANNELLS - We can provide the figures for Tahune. It did have a successful year in terms of numbers through.

UNCORRECTED PROOF ISSUE

CHAIR - Could I ask for that as well, please?

Ms RATTRAY - An extra 4 000 visitors.

Mr ANNELLS - Yes. We are looking at the moment at the future of Tahune AirWalk and we will be going to the minister, I would hope, within the next couple of months with a proposal.

Ms RATTRAY - To sell?

Mr ANNELLS - To sell the business, not the underlying - we would lease the business as a going concern to -

Ms RATTRAY - Is that the same as what happened with Hollybank?

Mr ANNELLS - No, Hollybank -

Ms RATTRAY - You did not sell the estate, did you?

Mr WHITELEY - The business operator pays a lease payment to Forestry Tasmania who still owns the buildings. We would not sell land.

Mr ANNELLS - We are looking at various alternatives based on a leasehold. The general view is that the private sector -

Ms RATTRAY - Does it better?

Mr ANNELLS - The private sector has a lot of experience in Tasmania in running these sorts of adventure activities and as long as we can be satisfied it will be maintained appropriately and good service will be provided - it is not something inherently that Forestry Tasmania should be running. We shouldn't be in the tourism business.

Ms RATTRAY - Those three significant business ventures that were entered into in the past -

CHAIR - And the one at Maydena.

Mr ANNELLS - That is right.

Ms RATTRAY - was the wrong direction for Forestry Tasmania back then.

Mr ANNELLS - I would not say it was wrong direction back then. It was very different circumstances seven to 10 years ago when all this started. It does not fit now into Forestry Tasmania's business strategy. Some very good work has been done by our staff to establish these things but I do not see any inherent difficulty in losing them to the private sector. With appropriate checks and balances I do not see it as a problem.

Ms RATTRAY - It is probably a terrific model where Forestry Tasmania, with government assistance, goes in and establishes a business and then on sells it to the private sector just like a southern residue solution I would suggest. What do you think, minister?

UNCORRECTED PROOF ISSUE

Mr HARRISS - I think it should be said that Forestry Tasmania has done a very good job -

Ms RATTRAY - I am not arguing against that.

Mr HARRISS - of the Tahune Air Walk in particular. Visitor numbers have been historically high and it has been a good business and well run by Forestry Tasmania staff as Bob has said.

CHAIR - While we are on that, what about the one at Maydena? What is the situation now because that has been on sold?

Mr WHITELEY - The principal asset was picked up by the world heritage area so that was a bit like Dismal Swamp. That was essentially part of the land transfer at that time.

Mr VALENTINE - The Co-ordinator General is looking after that at the moment, is he? With respect to projects, is the Co-ordinator General looking at utilisation of that site?

Mr HARRISS - I don't know.

Mr FINCH - Minister, can you respond to the suggestion that Forestry Tasmania is breaching national competition rules by under cutting private land holders trying to sell saw logs?

Ms RATTRAY - And I did not pass that question on by the way, minister.

Mr HARRISS - I would like to understand exactly what you mean by this. Forestry Tasmania operates entirely in conformity with national competition processes. Is there a particular matter you are referring to?

Mr FINCH - Feedback comes to me from private landholders that they are finding it very difficult to compete against Forestry Tasmania in some circumstances. Are you not getting that feedback?

Mr HARRISS - You saying in some circumstances and let us understand the detail about that. I meet regularly with private forest growers. I understand where their businesses are because there is a range of private forest growers. Some are in the Tasmanian oak growers group, others are on their own. I meet often with people who participate in the forest sector.

Mr FINCH - Are you telling me that you receive no negative or questioning feedback from those people about the way things are operating for them in the marketplace? Is that what you are suggesting?

Mr HARRISS - No. I have had comments made to me by some private forest growers that they think they ought to get more for their logs than a sawmill is prepared to pay them. That is the sort of comment I get from private forest growers. That is a matter for the marketplace. Even as late as the day before yesterday I met with a private forest grower who said it would be good if the sawmills would pay me more for my product. The sawmills will only offer a price to buy in as to what the market can stand for the product being produced at the other end.

UNCORRECTED PROOF ISSUE

CHAIR - That is related to the question isn't it? If Forestry Tasmania will sell it at a cheaper price, they are going to buy it from Forestry Tasmania as opposed to buying it from a private land owner?

Mr HARRISS - Forestry Tasmania operates in that commercial environment just like any other role.

Mr DEAN - We have previously heard that they were not recovering sufficient from their sales to cover all of their costs.

Mr HARRISS - No, we heard earlier today, based on the detail reality from the annual report, that it is a positive. We heard that two or three times during the day.

Mr DEAN - But we heard also from the chairman that the cost recovery for the product you are selling is not sufficient to cover all of the costs that are related to that business of selling the timber, getting it to the areas and so on.

Mr HARRISS - That is the nature of getting Forestry Tasmania's commercial operations onto a sustainable footing for the future.

Mr DEAN - That adds to this issue.

Mr HARRISS - I do not see that it does add to the issue.

Mr DEAN - A private business operator could not do it that way.

Mr HARRISS - The private growers are saying to me they would like to get more. Well, everybody would like to get more value for whatever product they produce. But the reality is, the commercial market is at play. So it ought to be. Forestry Tasmania operates clearly in that commercial market space without any advantage over private growers. We have provided contacts for, particularly, penetration to the Chinese market, logs in the round. They did not quite accept the prices they were getting and they have decided to move out of it. There are opportunities, but again, the commercial reality is that there is a supply and demand.

I do not know whether Bob or Steve have anything to add to that. I do not accept that Forestry Tasmania participates against national competition processes.

Mr FINCH - You are suggesting that you do not get any sheeting of the blame back to Forestry Tasmania for those low prices. Is that what you are saying to us?

Mr HARRISS - I can only repeat what I said a moment ago, I have private forest growers suggest to me that they would like higher prices. Some of the challenge arises with bringing to the market the residues in the south.

Mr FINCH - Just explain that. What were you saying then? The residues, the cream on top, from the south, what are you saying? People in southern Tasmania are disadvantaged, it is costing them more?

Mr HARRISS - It goes back to the discussion we had earlier regarding the subsidy for the south-north freight of the residues and that it applies to the state forest because of the removal of

some state forest into reserves, particularly world heritage area and the loss of the Triabunna facility. I have private forest growers, in those conversations, indicating to me that it does make it difficult for them when they do not have a Triabunna from which to export the residues which are generated from their forestry operations from the south. If private forest growers, who were not previously reliant on Triabunna as the export facility, operate in the north or the north-west, where there is an export facility for residues, that opportunity is available to them. They make commercial business decisions about what they can bring to market across whatever type of wood there is for them.

Mr VALENTINE - We heard on the news this morning that there was a group down here advocating for not logging Lapoinya. Can you give them any comfort or not?

Mr HARRISS - The position is clearly that of the 800 000 hectares under Forestry Tasmania's management, ostensibly permanent timber production zone land, only 400 000 of that is actually harvestable, as we said earlier.

Mr VALENTINE - You said that earlier.

Mr HARRISS - Yes, but it goes to your point. This is a coupe, and there would be many around the state, where some would contend some attachment to it and some significant conservation values. This is a coupe on PTPZ land which has to comply with all the provisions of the Forest Practises Code when the forest practises plan is produced and assessed by the Forest Practises Authority.

Mr VALENTINE - This was loggable land under the TFA?

Mr HARRISS - It is land that was not assessed under the alleged robust process that identified the only land that needed to be locked up in reserves in this state at that stage.

Mr VALENTINE - It was outside of that?

Mr HARRISS - Yes, never assessed. Even if it had been considered and left as PTPZ - it has been left as PTPZ - all of the environmental considerations around this coupe as well as any other coupe have to be taken into consideration and approved by the FPA. I am not sure if it has been signed off by the Forest Practises Authority yet?

Mr WHITELEY - It has. There has been work done over a number of years. It started in 2014-15, so there has been an extensive consultation process. Normally when we prepare a three-year plan we encourage people to have a look at that plan and come forward to let us know about any issues. Many of them can be resolved. It might be things like use of a road or neighbour issues. This was identified and there has been extensive consultation with both directly affected neighbours. There are some people who have property nearby, as well as some other community interests that have raised certain issues. All of those have been systematically addressed and there have been measures taken above and beyond the minimum provisions of the regulatory system. To the extent there were issues around adjacency to a private property or concerns about streams, there has been a whole range of additional measures taken to address the underlying issues. I know some of the commentary has been saying, 'We understand all those things, but why can't you wait?', or we would prefer you -

Mr VALENTINE - How big an area are we talking about?

Mr WHITELEY - We talked about this maybe 12 months ago, so we can dig that out if it is important to you.

Mr VALENTINE - I would be interested to know.

Mr DEAN - My question is on specialty timbers and their availability. This has been brought up now over a long period. I am aware of a northern operator in this area who has approached Forestry Tasmania wanting access to a number of specialty timbers. They wrote to Forestry Tasmania in May this year because of their concern that they cannot get access to the timber they want or would need. There is no capacity for them to plan moving ahead. What is the capacity of Forestry Tasmania to provide the necessary amounts of specialty timbers under the agreement we have entered into? Is there a capacity for it? What is going to happen moving forward for these people who need these species? Where are we at? Is there any light at the end of the tunnel?

Mr HARRISS - In the three-year wood production plan there is identification of matters related to special timbers as well as across all the Forestry Tasmania supply.

Mr DEAN - Dovetailing into this is the release made recently in the papers about stealing of trees. That is going to become quite a big issue as we move forward.

Mr WHITELEY - You are aware of three-year plans and we list available supply by species. Much of the high-quality millable material is already contract. Island Specialty Timbers is the other avenue we use for things that are clearly valuable timber but do not meet a category 4 specification. We aim to make the available resource available as equitably and consistently as we can. That is the year-to-year system.

It has been diminished in recent years as we have moved out of old growth. This is where the source is supplied. To the extent we have scaled back on old growth harvesting of any type, there has been a significant drop-off in many of the special timbers. We have looked to put some more work into things like blackwood swamps that are managed differently. Within the legislation there is requirement for a statewide management plan for special timbers. That is work currently underway and the output of that planning process is to set some targets. That is specified in legislation which you would be aware of.

CHAIR - It is some time ago that this was going to be done.

Mr WHITELEY - The management plan is set in legislation, so that is what the parliament determined at the time.

CHAIR - That you should be able to supply?

Mr WHITELEY - No.

CHAIR - There were quantities of special species you were going to be able to supply.

Mr WHITELEY - No. We had prepared a strategy, and this is ahead of the TFA. Because large areas of old growth were removed it was recognised that needed to be recast. In legislation, the Parliament determined that a management plan should be prepared which did specify targets.

UNCORRECTED PROOF ISSUE

It is a revisiting of that. That is a program being run by State Growth on behalf the minister. We are contributing information to that.

CHAIR - Are you able at the moment to supply the targets that were set? Answer - no.

Mr WHITELEY - We do not because there is not a demand. We can find coupes if people are prepared to pay for the wood.

Mr DEAN - There is not the demand for it?

Mr WHITELEY - Not at the price.

Mr DEAN - I refer to a letter from a northern operation at Deloraine where they made contact in May of this year, in a written letter to Forestry Tasmania, saying they required access to a certain amount of special timbers. They have outlined and identified a number. One I am not even aware of - doral. They are saying they cannot set their business up and continue to operate it in a reasonable way, and they have been operating for 10 years. It has had a change of ownership. They are saying they cannot get access to the timbers they want from Forestry Tasmania. You are saying you can provide everything people are asking for.

Mr WHITELEY - We publish a three-year plan showing what wood is available from what we have scheduled. That is what is being produced each year.

CHAIR - If a person is looking for a five-year contract to supply from you, that is not something they can get at the moment?

Mr WHITELEY - With some of the rarer species we do not have resource information.

Mr DEAN - What is doral?

Mr WHITELEY - That is an understorey species. Wood-turners like using it.

Mr DEAN - Does the operation on the lake on the west coast assist you in this regard - the lake recovery timber?

Mr WHITELEY - It has not so much helped us. It has helped users of the timber and it will absolutely help them. For people who wish to use those timbers, that will provide another source of sought-after timber.

Mr DEAN - It will help you too because demand will not be on Forestry Tasmania for as great a supply of some of those species they are recovering - blackwood, Huon and so on. You have had no involvement in that whatsoever?

Mr WHITELEY - No.

Ms RATTRAY - They received a grant to fund the operation.

Mr DEAN - From the Government, you are right.

Mr WHITELEY - That will help many people who wish to use those timbers.

CHAIR - Most of those you just market through Island Specialty Timbers.

Mr WHITELEY - Yes. The normal structure we have is we contract high-quality sawlogs.

CHAIR - High-quality sawlogs, but not special species?

Mr WHITELEY - Special species, so it tends to be sawmillers. Britton Timbers is our major customer, Corinna is another significant customer. There are a number of other people we sell logs to, but they are the contract holders. We try to use Island Specialty Timbers to distribute to various other people if we have things produced from operations.

Mr VALENTINE - That would be the minor parts of trees, would it, rather than the major sawlogs?

Mr WHITELEY - Yes. The peculiarity with special timbers is that often the most valued pieces are not the straight logs, they are burls and forks and all that. It is very different from the eucalypt system, even though we sell a classification called category 4 for sawmillers. We make a lot of the other material available to a whole lot of small businesses.

Mr VALENTINE - What is the level of demand? If you have a ceiling of 12 000 cubic metres, which I think it was in the first instance until you had it reassessed, what has been the level of demand?

Mr WHITELEY - Well, partly we monitor that by stock levels on specialty timber. People who are prepared to buy things are different from people who would like the idea of it being available. There has always been material for people to come and buy. We have not been in a situation where people cannot buy the wood but they like the idea of it being supplied in a certain way. Because we have stock, the evidence suggests that we probably have the balance about right at the moment.

Mr HARRISS - Chair, I think Steve might be able to clarify the Lapoinya coupe with some numbers, if he can put that on the record now.

Mr WHITELEY - Yes, 49 hectares is the area of the coupe. The planning area was 92 hectares, over which the plan was viewed. Then by the time various things were removed, the harvest area ended up being 49 hectares.

Mr VALENTINE - Of harvestable area.

Mr WHITELEY - Yes, after all the constraints and negotiation with interested parties.

Ms RATTRAY - Chair, I would like to stay here all day but I understand these gentlemen probably have other things they want to do as well.

Mr HARRISS - There are two things, if I might, Chair.

CHAIR - We have people coming in half an hour for the next GBE.

UNCORRECTED PROOF ISSUE

Mr HARRISS - I was reflecting on the private growers - and I thought I had a number in front of me but I did not at the time. With the retention by the Government of half a dozen sawmillers who would have exited with the program we ran to change all of that and have them stay in the industry, they are taking in private logs. There is a market there and that is being satisfied as one component of that. There are others who buy Forestry Tasmania's logs.

I will get Steve to finish the process, if we can, with a particular recognition for Marie Yee. It is all about forest sustainability and she is one of the scientists at Forestry Tasmania who has won an award as against the landscape context planning process which FT participates in.

Mr WHITELEY - I appreciate the comments made by the minister of the staff that there is a lot of Forestry Tasmania employees who do great work and they are often unrecognised. For many years, many of our scientists have been generally recognised, some more visibly than others. Marie is one who has made a significant contribution and fortunately this year she won a national award. It was to do with the certification schemes, FSC and the Australian Forestry Standard.

The Australian Forestry Standard called for nationwide nominations for people who had contributed to important underpinning of a forest management system. Marie has been doing work based on a landscape planning context system. That is really around managing old-growth and threatened species in the landscape, and having a practical tool for our planners to be able to manage those things within a context. What we found previously was that a forest practices plan simply focuses on the area to be harvested, not the context within which the activity takes place and all the decisions that lead to that final decision. Marie and others brought the signs together, brought some planning tools together, went out to practitioners and developed a system that is assisting drawing all those things together. Innovation is a bit of a buzzword. Often it is not recognised, but in this case Marie has been recognised nationally and it is appropriate that she be recognised.

CHAIR - Thank you very much, minister, and Bob, Steve and Chris. It has been a good morning for us. I think we have answers to questions and we may or may not be more confident.

Ms RATTRAY - Some people got things off their chest, and I am going to keep trying.

Mr HARRISS - As you should.

The committee suspended at 12.31 p.m.