

FORESTRY TASMANIA FINANCIAL PERFORMANCE INQUIRY

Mr BOB GORDON, MANAGING DIRECTOR, **Ms SUE SHOOBRIDGE**, CHIEF FINANCIAL OFFICER, AND **Mr KEN JEFFREYS**, GENERAL MANAGER, CORPORATE RELATIONS AND TOURISM, FORESTRY TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Forrest) - Thanks for coming back and just waiting while we finished that business we firstly had to attend to. Bob, can I just clarify that you need to get away at a quarter to five today or are you right?

Mr GORDON - No, I just changed all my arrangements because having just become aware that the committee had asked for evidence from others, and having just seen some of the evidence from others, I think it is really important that we finish this inquiry and put some of the facts on the record. So I am quite happy to stay here until midnight if necessary.

CHAIR - I don't know if other members are willing to do that. There is also some information that was requested in writing from Forestry Tasmania, some of it hasn't been comprehensive and some of it wasn't provided at all, so we will get to that a bit later on as we move through. We may need to have further information that may not be able to be provided at this particular time, but we will work on that as we go through. We will get straight into the matters. We did send an e-mail to you outlining the areas that we are going to be delving into and some of the areas we didn't get to at our last hearing. This committee is not like a GBE hearing where we just have the one session and that is it, this committee can call back yourselves or other witnesses if we felt it necessary to complete our inquiries.

Bob, the Premier recently announced an independent review of Government Business Enterprise, Forestry Tasmania, to provide recommendations on potential future structures, governance and business models and it would appear that the financial viability of Forestry Tasmania is one of these areas under consideration within this review. The scope of the review was advertised fairly broadly and one of the statements in that review was to assess Forestry Tasmania's current business model and financials and identify any key deficiencies and risk to government, including loss of value, particularly in the context of the proposed emerging industry and market changes. It went on with a lot of other matters - considering market conditions, structure and governance as well.

To start off within this area around the financial viability of Forestry Tasmania, should not this strategic review have been undertaken well before the round table started? Why is it being conducted now and on whose recommendation was it initiated?

Mr GORDON - Before we go on to that, at the last hearing I didn't get an opportunity to table our introductory remarks and some documents that related specifically to the terms of reference, which were the half-yearly reviews, so I would like the opportunity to table those. These include an opening statement, a list of cost-saving measures that have been implemented, information that is on the public record regarding last year's revaluation of the State forests, and the road toll information which I think is the only piece of information we didn't get to you that we were asked about in writing. That is the road toll collected by Forestry Tasmania for non-forestry uses of the road. In 2008-09 it was \$95 000 and in 2009-10 there were \$53 000, although it is possible there are some other amounts we have collected which for administrative convenience might be recorded against forest revenue if it is sent as a large payment.

Before we go any further, I just want some clarification on the terms of reference. My understanding was about the six-monthly financial statements from Forestry Tasmania, and at the last hearing we provided information that was about not-yet-audited financial information. Some of that information was then misunderstood and misused. I think there was a *Mercury* report saying that Forestry Tasmania was owed a large amount of money by the softwood joint venture, which couldn't possibly have come from any factual analysis of our reporting, and we need to make sure that gets covered off. I also understood it was to look at the operating cash flows reported in the Auditor-General's report, and thirdly about the restructure involved in the amalgamation of the Mersey district with Bass and Murchison, and that is what we have come prepared to answer. Is that a correct understanding of the terms of reference?

CHAIR - Yes. The terms - I have a copy here - are about the financial performance of Forestry Tasmania, and it is on the back of the half-yearly report, but you can't look at the half-yearly report without looking at last year's annual report as well.

Mr GORDON - That's fine.

CHAIR - So it is about any factors impacting on the financial operations of Forestry Tasmania as reported, because the fact is that when you presented that information - and you did table that particular document at the last hearing - it is an unaudited set of figures. It did not contain a balance sheet or other reports that I would have thought would have been provided. You made the statement at that time that you hadn't done that because they were not audited and you had not actually prepared them, in spite of the fact that on a monthly basis you are required to report to Treasury.

Mr GORDON - And I also wasn't aware until the weekend that, unlike normal GBE hearings, other people had been asked to give evidence, and I was not aware until the weekend again that a report from one of the environmental ENGOs had been tabled at the committee. I still haven't finished reading it. When I saw the report that was released I found it hard to believe that any people with a basic understanding of forestry or economics could have taken the report seriously.

CHAIR - Which report are you referring to, Bob?

Mr GORDON - Someone called Naomi Edwards.

CHAIR - There has been a degree of interest in this committee. People who contacted the committee were told they could provide submissions. We haven't taken evidence from anybody else other than Forestry Tasmania at our last hearing. Those submissions have been received and considered, but we haven't taken any further evidence - within a hearing setting, are you talking about?

Mr GORDON - I think the question we asked by e-mail last week, which when I was away Ken found on the website, was whether any other witnesses would be called.

CHAIR - You asked that question?

Mr JEFFREYS - Maybe I could assist here. I think there has been a degree of misunderstanding about the terms of reference and about the intent of this committee. We understood that it was to deal with matters relating to the half-yearly results, and you and I have spoken at length about the balance sheets and why these reports are presented in the way they have been, and I think in those private conversations you indicated and gave FT credit for producing half-yearlies and being the only GBE to do so. Perhaps because of concentrations on other matters, we haven't looked at the website and we have felt as if we haven't been properly informed about the intent of the committee.

CHAIR - With all due respect, Ken, when we look at point 2 of the terms of reference, you've got a copy in front of you, we are talking about actions taken by Forestry Tasmania to address the decline in operating cash flows. To actually look at those we need to consider what the cash flows are. It's been very difficult to get that information. As far as other people making submissions is concerned, the committee took a view that it was appropriate for other people to do so, if they wanted to put a submission in, for the intent of the inquiry of the committee is to look at the financial performance of Forestry Tasmania. We didn't need a half-yearly report to do this; we could do this just based on the Auditor-General's report as happens in GBEs, as you know, but that's only on a yearly basis, well after the information has been provided; bi-annually for this particular House.

Mr JEFFREYS - Perhaps it is a learning experience for us all because certainly there are people who, if they had known about the committee and its inquiries, would have made submissions to your committee. As late as this morning they were surprised and caught unawares that this hearing was going ahead today. They are fully aware of the other Legislative Council committee hearing. I guess the other part that has disturbed us a little is that we have prepared our material on the basis of the half-yearly accounts. At the last hearing the matters ranged far and wide, well into the current financial position of Forestry Tasmania, which is well beyond the terms of reference. The terms of reference relate to the period June 30 to December 31 as reported by the statements released in February.

CHAIR - The terms of number 3 are factors impacting on the ongoing profitability of Forestry Tasmania. Clearly that would have to be a current situation.

Mr JEFFREYS - I agree that there are factors impacting on the ongoing profitability of Forestry Tasmania and it is something that we can deal with in this committee but what I am saying is the financial results beyond December 31 are not the matters for this

committee because there is another opportunity further in the year for the committee to deal with those financial affairs.

CHAIR - With all due respect, Ken, again I say this committee is not like a GBE committee, a scrutiny committee. It is a committee that is looking at the matter before us now which includes the half-yearly report you provided, the Auditor-General's comment and his report, the fact that it's impacting on the ongoing profitability of Forestry Tasmania which are all looking back as well as looking currently and even looking forward because we are talking about the implications into the future of the Mersey district abolition, putting it in to Mersey and Murchison.

Mr JEFFREYS - The other point I would make is that it was only yesterday that I became aware that you issued a media statement on 23 March and seeing that we are the only ones to give evidence to the committee, I would have thought that we might have been advised of your intention to put out the statement, or even after the statement was put out, but you did say in that media release that this inquiry is also an opportunity for Forestry Tasmania to reassure the taxpayers of Tasmania that it is a well-managed business with a solid, long-term future. At the first hearing, we weren't given an opportunity to give some introductory remarks and that doesn't give us an opportunity to reassure the taxpayers of Tasmania, so we would like to address that.

CHAIR - Do you want to start off with that now?

Mr WILKINSON - Can I say, as you probably know, these committees are different to what's happened in the upper House at any stage. There were two new committees and what they've done to some degree is taken over from the select committees. You can still have select committees but they've pretty well taken over from those to a large extent. What we found previously in relation to select committees was that by the time you went through Parliament, you debated it in Parliament, you then put out your advertisements, you then got in your submissions, sometimes the issue that you were looking at was old news before you even started the committee. As a result of that, these two new committees only came in very recently, as you probably know.

Mr JEFFREYS - Mr Wilkinson, I also understand the context of that debate in Parliament and the context of that debate was that it was an opportunity for this committee to call GBEs to give evidence -

Mr WILKINSON - Yes.

Mr JEFFREYS - not to have a wide-ranging inquiry; that wasn't my understanding of what the Legislative Council -

Mr WILKINSON - It doesn't have to be just GBEs; it can be anybody. If you want to have a look into health, if you want to have a look into education, it's not restricted just to GBEs so that's where the misunderstanding may have been.

Mr JEFFREYS - I think it is a misunderstanding.

Mr GORDON - And this discussion is not about laying fault, it is about clarifying why last time we were a bit uncertain about what was happening because it wasn't our

understanding. To put it in context, apart from running FT's day-to-day business, at the moment we have been fully engaged in acting as consultants - unpaid - to the Statement of Principles process. We've been negotiating contracts with all our sawmill customers; we are busy finding markets for pulpwood to deal with the Triabunna very, very short-term notice closure; we have been involved in three parliamentary inquiries in the last two weeks; we have about 10 freedom of information campaign requests and we have had almost daily protests, illegal, by extremist groups that have shut down our building and our communications, including letting off smoke bombs, which meant we had to have the whole building shut down and all the computer systems off. We have had, almost daily, our staff abused and threatened by activists in the field. So we probably didn't pay as much attention to the terms of reference process as we probably should have.

CHAIR - You accept that this committee is absolutely separate to all of that - all of the challenges you are facing, we do accept that they are significant challenges and I am sure we would all like some of those to go away.

Mr GORDON - Again, given that I have now been made aware, through TV advertisements and otherwise, that people who don't know much about economics and about forestry have been taking the environmental-funded study by Naomi Edwards seriously - and I started reading it this morning - I am happy to go through it off-the-cuff, line-by-line and point out the hundreds of factual errors, dishonest statements and misleading statements that are in it because it has no credibility from anyone who knows anything about economics or forestry, or any of the history of the forestry debate. I think that that would be a very useful function this committee could perform to get some of those facts on the record.

CHAIR - That is something that the committee can decide to do at some stage.

Mr WILKINSON - With any committee documents that are received, whether those documents are accepted as useful evidence or not is a matter for the committee. I hear what you say, though, if the evidence is before the committee you want the ability of natural justice, you could argue, to negate what is stated in those statements, I accept that. But just because evidence is received by the committee it does not mean that the committee is going to accept that evidence as being correct evidence. We sift through all the evidence, as you know, and then decide as a committee which part of the evidence we accept and which part we don't accept.

Mr JEFFREYS - Through you, Chair - if the committee has no other evidence except for the submission put before it, it may be obliged to accept that as the truth and we are very keen to ensure that that isn't the perception left with this committee.

Mr WILKINSON - I understand that and that is why I am saying the natural justice aspect is where the opportunity is.

CHAIR - The opportunity here is to question you.

Mr GORDON - Again, the submission from the green groups goes through basically most of the questions that I understood the committee was interested in, the difference being it gets it wrong and I think it would be really useful to point out what I believe are common

myths and dishonest analysis that this particular Wilderness Society consultant has gone through because I think it highlights the issues that the committee has been asked to examine. As I said, I only had a chance to start reading it this morning and I have already got about 50 factual errors in the document and I am quite happy to go through those. They come directly to the cash flow, FT's economic performance, FT's rate of return and I think it would be a useful exercise for this committee to be part of correcting the public record.

CHAIR - As a committee I believe we are happy to look at whatever evidence you want to provide to the committee, but we do have a one-and-a-half hour time slot left for today. If it takes another opportunity to meet and just go through that, that is something that we can decide at the conclusion of this hearing, but there are a number of questions that members have and also want to seek answers to in addition to that information that you might want to provide, which may cross over. Until we get started into it, it is a bit hard to know.

Mr JEFFREYS - Madam Chair, with your indulgence, we would like to deal with those matters first. We think that in the last hearing there were references made to the Naomi Edwards report and so it is natural for us to want to deal with that in a timely fashion, which would influence the way the rest of the hearing might proceed. Given that we have been denied the opportunity to make some opening remarks, we would now like that opportunity -

CHAIR - I do not think you were actually denied because there were some opening remarks made last time - I have *Hansard* out here - but if you want to make some opening remarks, that is fine. How you proceed from there is a matter for the committee.

Mr JEFFREYS - Madam Chair, again we are not by any means trying to restrict the opportunity for you to ask questions. We just would like the opportunity to get on the public record what we believe is a serious mistreatment of the truth.

Mr WILKINSON - Can I just cut in? We received the Naomi Edwards report on 12 May, so that report was received by us two weeks ago. To say that it was received earlier is not quite right. I think with any committee, what has to happen is that the parties have to have the ability to give us the information that they believe is going to assist us in coming to a conclusion. That is my personal view. If parties walk away from the committee and say, 'Look, I was not given a chance to put my views in the best way I can, in accordance with the terms of reference' then I do not think the committee is doing the job it should be doing, so that is where I stand.

What I am suggesting is this: if you believe - I am just speaking for myself - that it is necessary to look at that report which Paul has just mentioned to me was received on the 12th, which is after we met on the last occasion, then - I know it is a matter for the committee - I am certainly quite happy for you to give that evidence so that you can walk away knowing that all the evidence you have given us is the evidence you want to give us and which you believe is in accordance with the terms of reference.

Mr GORDON - Maybe I could give a brief opening comment that mentions that report - give a potted summary. In our view - and I am sure it is a view that would be supported by independent economists - Tasmania would have lost more than 3 000 jobs and

taxpayers would face a \$30 million-a-year bill to manage forests if Forestry Tasmania was abolished.

We are extremely concerned that the deceptive and misleading television campaign somehow is trying to spin that Forestry Tasmania is responsible for the State's financial position. Abolishing Forestry Tasmania would make the budget position worse, not better, and would lead to widespread job cuts. Last year the value of timber products produced from State forests was \$563 million. If Forestry Tasmania was abolished, and State forest reserve, that \$563 million would be lost to the economy and 3 400 jobs that rely on native forests would be lost. In addition, there would be 350 job losses directly at Forestry Tasmania and our thousand or so contractors. Worse still, the bottom line budget would take a \$30 million hit. It costs about \$20 a year per hectare to manage native forests.

At the moment those costs are met by Forestry Tasmania. That is, the areas that are not available for production which we manage as part of an unfunded community service obligation would cost about \$30 million a year to manage. If this is currently the case, the National Parks Service was funded to manage those as they are under the national parks system.

Mr WILKINSON - So you would multiply 572 000 hectares by \$20 in order to get some type of figure?

Mr GORDON - No, the 572 000 hectares is the latest conservation claim from the green groups.

Mr WILKINSON - That is right.

Mr GORDON - I am talking about the 700 000 hectares that is already unavailable for production and again, when we go into Ms Edwards's report it fails to acknowledge the hundreds and and hundreds of thousands of hectares of highly productive forest that have been taken out of wood production from the overruling of the Helsham Royal Commission, the Salamanca process, the RFA and the TCFA and the current factual position as acknowledged by the Auditor-General in our last annual accounts is that Forestry Tasmania is managing those forests at no cost to the taxpayer but at considerable cost to Forestry Tasmania.

It amazes me and a whole lot of independent economic analysts that Ms Edwards's deeply flawed report, which displays an amazing ignorance of forest management and overlooks that it did not support her report's predetermined conclusion, has been taken seriously. She claims that returns to the State have diminished since 1998 but fails to acknowledge that that decline in dividends was a direct result of three major issues: the removal of areas from production forests and the requirement for Forestry Tasmania to still manage those forests; the Government's decision in 1998 to refuse to pay community service obligation payments to Forestry Tasmania; and the loss of revenue from the half share sale of Forestry Tasmania's softwood plantation estate, and \$40 million of those proceeds went as a special dividend to the State. It also ignores the fact that at the moment Forestry Tasmania and its subsidiaries pay around \$3 million a year in rates to local government. In fact I think in the Huon municipality they would be by far the largest single ratepayer. If the proposal from Ms Edwards and some of the green groups

went ahead, that rate revenue would disappear overnight, because National Parks don't pay rates, and I imagine many local councils in Tasmania would immediately go broke.

It is also true - which is the underlying assumption in this report - that if Forestry Tasmania was privatised and did not have those obligations, that is, if it did not have the obligations to make available high-quality sawlogs, it did not have the obligation to provide subsidised roads and facilities to beekeepers and special-species timber users, it did not have to manage the hundreds of thousands of hectares of state forest which are not available for wood production, if it did not have to provide roads for councils and other people, and if it did not have to fight fires as the major fire-fighting organisation in the State and not get paid for it, then of course Forestry Tasmania could make a large profit. What it would do is a bit like all the privatised forests in New Zealand. I was at Tauranga one-and-a-half weeks ago. It is world's largest log export port. Last year the New Zealanders exported 20 million cubic metres of logs in unprocessed form to China, and that is exactly what would happen in any privatised forest company in Tasmania. It would follow exactly the same economic drivers. It would also reduce the native forest rotation age, substantially increase the cut, log the most profitable and easily accessible forest areas first, cut out research, would not be burdened by expensive right to information responses, ministerials, government and parliamentary inquiries and business development costs. It would eliminate CSOs. It would not fight forest fires unless it was paid to do so, and it would withdraw from most tourism and recreation activities. All of these things would lead to a substantial increase in profit for the privatised Forestry Tasmania.

The next-worst option is to make Forestry Tasmania part of the public service, where it would lose any focus on markets, on customers and on a profit, and would become like much of the rest of the public service. Its idea of a budget is how much money can I get from government, not how much money can I earn to pay my own way and return a dividend and taxpayer payment.

Again, in this report there is a constant reference to subsidies provided by the Commonwealth and State governments to Forestry Tasmania. That is at best dishonest. When the Federal Government initiated the Helsham Royal Commission it asked the commissioners, including a retired Supreme Court judge, to inquire into whether any areas in the general Southern Forests and Lemonthyme area warranted World Heritage listing. That committee found that there were five very small areas. The Federal Government completely overruled that Royal Commission and added a considerable amount of forest area, all from state forests, to the reserve system. The analogy is a bit like if the Government decides to take your house off you. Now under the Commonwealth Constitution they are supposed to pay fair and reasonable compensation. In Forestry Tasmania's case the forests were taken off, our capacity to earn income was taken off, and then people say we were given a subsidy to partly meet the cost of those areas being taken from production and put into national parks, and at the same time they became a burden on the taxpayer. Forestry Tasmania is not reluctant to change. We have gone through an enormous amount of change, much of it at our initiation, over the last 10 years, but we think that before people look at change they should at least do some factual investigative analysis of some of the proposals that have been put up.

CHAIR - Thank you, Bob. That has refuted the claims -

Mr GORDON - No, I am happy to go through it line by line. There are over a hundred factual errors in the report. Again, as I've said, I have only had a chance to read it this morning, but anyone with an ounce of knowledge of either economics or forestry could tear so many holes in that report that I do not need any research to do that and I can back up every one of the untrue claims that they have made.

CHAIR - Bob, since you have only had a chance to read it today, can I suggest that it might be helpful if you could provide a written response going point by point to the committee.

Mr GORDON - It is true that I could waste several days going through a report which I believe has no factual integrity and is at the worst dishonest and probably misleading, or I could do it in half an hour now and we could put it on *Hansard* and everyone can ask whatever questions they like and the issue can be put to bed.

CHAIR - Are you referring to this document called *A Target To Return Equity To Forestry Tasmania*?

Mr GORDON - I am referring to the submission to the Legislative Council inquiry into Forestry Tasmania's financial performance, which has a couple of pages of submission and then attached to it is a report called *The Financial Performance of Forestry Tasmania as Reported in the Half Yearly Financial Report*, which then goes on for 18 pages, and then there is another report which appears to be appended to it, again, from Ms Edwards.

CHAIR - Does the committee have a view?

Mr HARRISS - Madam Chair, I think I'm happy to go that path at some stage, not necessarily right now, and when I say 'some stage' I mean later today in later today's hearing. I think Bob makes a very valid point that he can go away and critically dissect and then spend hours responding. Let's get it on the *Hansard*. He's on oath, what he tells us he tells us, but as you said earlier, committee members have prepared for themselves a process of questions which they want. That may only take a half an hour, for all I know; it may only take an hour. We might have heaps of time left to go right down that path that Bob is talking about.

Mr GORDON - I know the committee has probably got some time lines, but I'm happy to stay here as long as necessary.

Mr HARRISS - The only thing I mention there, Bob, I am referring to questions that people have prepared ready for today and they may be knocked over in an hour. It is now a quarter to four, they could be knocked over in a lot less than that; who knows. If they are not we may still make a conscious decision to suspend where we're at to go down that track because I think - through you, Madam Chair - Bob does make some valid points about FT's view on the Edwards's Report. Given that that was provided to us at Ms Edwards's own personal request, then we will make our judgment about it at some stage as to whether it is part of our evidence or not, and whether we get her in to stand behind her report.

CHAIR - I just did not want to make a decision on it on behalf of the whole committee without consulting with the committee on this. Bob, you have made the opening

statement, we might follow on Paul's suggestion that we leave this to a later time in the committee hearing and some of it may come up during the process of other questions. You might want to refer to it at that point. If you are agreeable to that, we will go back to where I was trying to start and assuming that we made a start with out last hearing, we will be coming on to the back of that. Did you want to make any opening statement in relation to the hearing today?

Mr GORDON - Would you like me to go through any of the documents that are tabled? I'm quite happy to go through the cost-saving measures that we have implemented, which was tabled today. Again, I think they are self-explanatory to us, but I'm happy to run through what any of them mean in practice. We've been going through those cost-saving measures for the last three years, basically since the global financial crisis hit, and I can give you an indication of how much money we have saved, roughly, on each of those initiatives as well.

So if you look at the first one, Voice over Internet protocol of telephones, we did some analysis and decided that we didn't need to use Telstra landlines anymore and we've converted all our telephone systems, after doing a trial in the Huon, so that all of our telephone calls are now Voice over Internet protocol - that is, we use proprietary Skype-type technology. So when you ring Forestry Tasmania, the phone calls don't cost us -

CHAIR - I think members are aware of what that does.

Mr GORDON - That saved us about \$200 000 a year.

We negotiated with the landlord of our building and if you go to Forestry Tasmania's head office at the moment, you'll notice that there is a considerable amount of activities going on. That is all funded by the landlord and we have a substantial downward reduction in the lease payments.

CHAIR - You mentioned some of those things at the last hearing.

Mr GORDON - Yes, I think I was asked for a list at the last hearing.

CHAIR - Yes, the list was provided.

Mr GORDON - Is there anything that the committee doesn't believe needs further investigation or explanation?

CHAIR - Do you have an overall quantum of the amount you've saved; you've got some figures there on some of them, but overall?

Mr GORDON - Some of them have been difficult to directly cost. For example, as well as having negotiated, through a competitive tender process, lower electricity costs, we've also had a consultant look at our energy usage. So we've done two things, reduce the per kilowatt-hour rate and also reduce substantially our usage of electricity. My best guess is it has saved us about \$200 000 a year.

One we could add to this is that we sold our Geeveston office about a week ago to the Education department to assist them in finding an area for a childcare and another facility

that they're going to locate in Geeveston. We've done that on the basis that with the money we were paid we can fund a new building at the Cemetery Road depot for less than what we received for the building. Again, it's a bit hard to put a cost on that but I expect it saved us at least tens of thousands of dollars a year.

In terms of reduction in roadworks, most of the roadworks that we have reduced have been ones that are not required for harvest of forest products. We also haven't repaired any of the infrastructures damaged by the floods, unless there is either Commonwealth or State money available to repair that infrastructure. I think that saved us about \$1 million in capital.

CHAIR - Overall, do you want to put a figure on that?

Mr GORDON - Our total reduction in operating expenditure has been in the order of \$3 million or \$4 million over the last year.

Mr HARRISS - Just on the back of that, Bob, the reduction in the research effort and staff not replaced? I am aware, having a look at forestry operations elsewhere in the world, that research is pretty fundamental to any future direction by assessing what you've been doing. So that's a cost-saving measure. What about the biodiversity or the environmental impacts of reducing your research effort?

Mr GORDON - I think again it's one of the areas that if there was a system where Forestry Tasmania was funded for community service obligations that aren't directly related to its wood production functions then that would be funded. Wedge-tailed eagles are a good example. We spend about \$250 000 between November and March each year locating active wedge-tailed eagle nests. All of those on State Forests we have located. There is no funding from the State Government and National Parks have no idea how many eagle nests there are on the national parks or reserve system other than the ones it accidentally discovers. So effectively, Forestry Tasmania is funding all of the research on wedge-tailed eagles out of the sale of forest products.

Again, wedge-tailed eagles are a good example. What's the biggest threat to wedge-tailed eagles by number of reported kills? Wind farms kill more than anything else. The next is powerlines, the next is farm fences, and there is no known damage or death of an eagle associated with forestry practices. Yet who funds all the fundamental research? Forestry Tasmania. So, again, you would expect at a minimum that the electricity companies would fund eagle research, as they are responsible for the vast majority of deaths. You would expect that there would be some levy on the farming community because they are the next most responsible but no, we spend \$250 000 a year and there is no known death or damage to an eagle from forestry operations.

Mr HARRISS - Will that be impacted by your reduction in research effort?

Mr GORDON - I think we would be looking at all of the research that is not necessary to carry out wood production unless we are funded to carry out that research. By the way, this is no criticism of the scientists involved. Some of these people have world reputations. For instance, Dr Martin Moroni is probably one of the foremost world experts on forests and carbon. He has just recently published, in one of the most prestigious journals, a major article looking at the carbon cycle in forests in Tasmania

and the major findings were that there is quite a variation in the carbon content. The research - which has not been peer reviewed by some scientists at ANU - suggested some massive carbon storages in Tasmania's forests. Going through all our plot data it shows that about 2 per cent of the forests have that sort of carbon storage. In general, tall wet eucalypt forests store large areas of carbon but there is only about 2 per cent of that type of forest; that rainforest actually stores much less carbon than tall wet eucalypt forests and that the dry forests store even less carbon. If someone was asked what if the objective was to store as much carbon as you could in forests, then you would convert the rainforests back to eucalypt forests.

Mr HARRISS - Likewise, the possible closure of your library; I have used our library here to source literature from your library for my research. What impact is that going to have on your own business?

Mr GORDON - Most of the research nowadays is published on the Internet so there would not be very many articles that are written in the science community or the medical community that are not equally available on the Internet. We have to cut our costs. Our library has been used a source of information for a whole Tasmanian community. We are not funded to provide that; it is what the library service is funded for. Our activities, if they are not going to be funded by government in terms of community service obligations, will have to be cut back.

To go back to the science, for example, a lot of our science is done through collaboration. For example, a whole lot of Dr Moroni's work is funded in collaboration with the CRC and universities and the Commonwealth. We have been funded to put in a carbon flux tower in the Warra research which has cost us about \$1 million. We are providing some of that in kind. What we are trying to do is, like we are doing with forestry technical services, wherever possible; leverage our worldwide expertise in forest science to get money from other people. However, if that sort of semi-commercial activity does not fund it and it is not going to be funded by government, then we can no longer afford it.

Dr GOODWIN - Madam Chair, I have a question. I want to ask about the last dot point; cost reduction in regen burning through operational changes. Can you elaborate on that a little bit?

Mr GORDON - There are some fairly practical changes. We used to do what is called tracking, so the outside boundary of the logged area would often have a bulldozer with down to mineral soil firebreak around it. We do not do that anywhere near as much as we used to. We have extraordinarily good information nowadays from the weather bureau, including our own remote sensing weather stations, which means that we can much more accurately predict likely fire weather conditions and wind and smoke dispersal. This is why you would have noticed this summer a whole lot of other landowner's burns smoked out people. The only incident we had was a short time of burning which was contributed to by the landowners and that was because basically the weather prediction did not anticipate smoke coming down through cold air drainage which is what happened then. This access to information technology has meant that we are much more confident about burning parameters and, therefore, we don't need to spend what is quite large capital doing some of the backup tracking work, which is quite expensive.

CHAIR - Bob, just to go back to where we intended to start, and this goes to term of reference 3 where the ongoing profitability of Forestry Tasmania that was impacting on that, as I said to you previously, under the scope of the review that the Premier has announced that scope includes assessing Forestry Tasmania's current business model and financials and to identify key deficiencies and risks to government, including loss of value particularly in the context of proposed emerging industry and market changes, things we talked about in some length at our last hearing.

The question I would like to lead off with is do you think this strategic move should have been undertaken before we started the roundtable process, who actually initiated this and whose recommendation was it, and were you consulted before this was announced and do you support the review?

Mr GORDON - My understanding is that the previous Treasurer Mr Aird initiated the review.

CHAIR - It took a long time to come to the surface then.

Mr GORDON - I think it corresponded with the retirement of the head of Treasury soon after and the new head of Treasury, I think, was asked to look at draft terms of reference and he has obviously been occupied with budget matters.

At one stage we were given a draft which we made some comment on but at the end of the day the Government holds the two shares in Forestry Tasmania. If they wish to carry out a review then obviously we will give information and expert advice to that review.

CHAIR - So you were supported in that you got to look at the draft terms of reference - is that the extent of it?

Mr GORDON - Correct, and again a subcommittee of our board had a meeting to discuss it. We put the view that it was very difficult to carry out a review with all the uncertainty that was currently going on in the industry and suggested it may be better to await any output from the round table discussions so at least there was some landing on the amount of land that might be available and the potential production from the forests, but for whatever reason government decided to proceed with the review.

CHAIR - You are not aware of why they decided to do it in the middle of this whole process then?

Mr GORDON - No.

CHAIR - Do you believe there is a view that the current structure is not financially sustainable and that things need to change?

Mr GORDON - I think, and again from the evidence that we gave last time, it is obvious that there have been some substantial changes in the forest sector, some driven by Forestry Tasmania. For example, 10 years ago when we decided that it was possible to produce rotary veneer from pulp wood eucalypts everyone said it was impossible. That research development and market development led to Ta Ann establishing two rotary veneer mills

in Tasmania and that has driven a whole lot of changes in the harvest and transport sector.

It has led to a decreased availability of wood for woodchip export and there are a whole lot of other changes which have happened in the world markets - an increased reliance on native forest wood in Europe, for example, cutting it at younger ages which has led to decreased strength levels; the same in North America whose cut is almost exclusively native forest but it is getting younger, which means that there are market opportunities for high strength veneers.

A whole lot of changes have happened and, as I said before, we are happy to have our operations reviewed and for well-thought suggestions, about how they could be improved, made at any time. I think we get a bit frustrated with some of the lacking-in-rigour analysis that comes from some of the green groups.

CHAIR - In saying that, we accept there have been changes and you undertake your own reviews on an ongoing basis.

Mr GORDON - Yes.

CHAIR - When we look back, sort of looking back to look forward I think is how you could frame it, I know that in the annual report of 2009-10 it is noted in there that there was a letter of comfort issued by the former Treasurer at that time to enable your directors to be able to sign the solvency declaration. Since that letter of comfort, in fact prior to the signing off of the annual report, have other letters of comfort been provided and/or requested and when were these sought, if they were?

Mr GORDON - There has been the one letter of comfort and to put that in context, the borrowing covenants that were set I think 15 years ago when Forestry Tasmania was established were not commercial, normal commercial parameters. If the parameters had been set as they would be for any normal commercial enterprise, they would have been quite different from the ones that were set.

Again, we are in the unusual position of having our funding provided by a monopoly lender, for which we are charged a penalty interest rate for funding. So it makes it very difficult to give normal commercial comparisons when you are operating under a GBE act that puts restrictive borrowings on both you and the lender.

Mr HARRISS - You are referring to Tascorp?

CHAIR - That was the letter that was signed before the last annual report I am talking about and the purpose of that was to - I am trying to find the note in your annual report - renegotiate -

Mr GORDON - It is just the same letter.

CHAIR - Sorry?

Mr GORDON - It is the same letter. There has only been one letter.

CHAIR - So has it been re-

Mr GORDON - It has been extended.

CHAIR - When was it extended then? On what occasions was it extended?

Ms SHOBRIDGE - It was extended once.

Mr GORDON - Once. I cannot remember the date.

Ms SHOBRIDGE - Before it expired. It was extended to the end of December.

CHAIR - It was extended in December?

Ms SHOBRIDGE - No, it was extended before it expired in February to the end of December.

CHAIR - This year?

Ms SHOBRIDGE - Yes.

CHAIR - So there has been one further extension, is that what you are saying?

Mr GORDON - Correct.

CHAIR - In December.

Ms SHOBRIDGE - No.

CHAIR - Sorry?

Ms SHOBRIDGE - In February.

CHAIR - In February this year?

Ms SHOBRIDGE - Yes.

CHAIR - I understand that is to allow renegotiation of the arrangements around -

Mr GORDON - The covenants, yes.

CHAIR - You have said the covenants were set 15 years ago and not what would be within normal commercial parameters.

Mr GORDON - Correct, at a time when Forestry Tasmania had no borrowings and likewise there was never any equity provided to Forestry Tasmania in the first place in corporatisation.

CHAIR - Just to read from your annual report: 'The Treasurer has provided support by way of a letter of comfort to Tascorp whilst revised arrangements are being negotiated'. Have

those revised arrangements been negotiated and are you now looking at more commercial parameters for that?

Mr GORDON - No, they have not been renegotiated and the letter of comfort has been extended to the end of this year to allow that to happen.

CHAIR - So one would have expected it to happen a bit quicker than that or not?

Mr GORDON - Well, it is a negotiation between two parties.

CHAIR - A letter of comfort has only been provided to Tascorp; is that the only party involved?

Mr GORDON - Correct.

CHAIR - If the arrangements could not be renegotiated perhaps to be on a more commercial arrangement and Forestry Tasmania were unable to meet its commitments, the Government would then pick up the tab? Is that how it works?

Mr GORDON - Well, the Government has lent the money in the first place so it would be a government decision about the borrowings. As I said about Tascorp, we are required to borrow money from them and we pay a penalty interest rate to Tascorp on top of the normal interest components we negotiate. So it would have to be a government decision what they did about the borrowings that they have instructed us to borrow only from Tascorp.

CHAIR - So as far as solvency goes then, it is a matter of construing that you will continue to operate in a solvent manner - that is a fair comment, is it not? That is for the purpose of signing off, the directors signing off on the solvency declaration.

Mr GORDON - Correct. Every company does that.

CHAIR - Does it apply differently to GBEs than it does for other commercial operations?

Mr GORDON - The only difference with a GBE is that your owner is also the lender.

CHAIR - Not the Government - the lender is Tascorp, aren't they?

Mr GORDON - Which is the Government, so we are in a position where -

CHAIR - But they are a government business.

Mr GORDON - Correct, but the money comes from the Government so we are required to borrow from Tascorp because it is the one that manages government moneys and we are required to pay the interest rate that is regulated by them and so we borrow money from Tascorp because that is what the Government asked us to do. If the Government decided to withdraw all borrowings from Forestry Tasmania, it would be a highly unusual move.

CHAIR - I note the former Treasurer answered a question in Parliament back in September 2010 regarding the insolvency provisions that apply to a GBE and he stated at that time

that in terms of the level of solvency of State-owned companies and GBEs there are mechanisms which the Government can take to ensure that the companies or GBEs are trading within the solvency guidelines, including the director's obligations within those organisations, so can you tell me whether Forestry Tasmania adheres to those rules and guidelines and if not, what areas of solvency guidelines may have been breached?

Mr GORDON - I think he may have been talking about other GBEs rather than Forestry Tasmania when he made those comments but I do not know. Forestry Tasmania, like every other company in the world, goes through regularly our trading position, our cash flow and our solvency and every month, as a matter of good process, we sign off on all of those issues so I am unaware of what involvement the Government may have had in that. It may be he was referring to other GBEs.

CHAIR - No, the discussion was around Forestry at the time.

Mr GORDON - Oh, okay.

CHAIR - So you are aware of the rules and guidelines surrounding the solvency guidelines?

Mr GORDON - Of course I am.

CHAIR - The question was have you adhered fully to those guidelines?

Mr GORDON - Yes we have. I think that question was answered last time or was it last GBE hearings? I cannot remember.

CHAIR - I do not think it was last year but it was with us.

Mr GORDON - Okay. There have been so many committee inquiries I sometimes merge them a bit. It might have been at the other one.

Mr HARRISS - Transition, forests.

Mr GORDON - Yes, it might have been on the transition one.

CHAIR - So then in your opinion, Bob, is Forestry Tasmania facing a solvency crisis or issue at the moment or not?

Mr GORDON - No. Forestry Tasmania is trading solvently and will continue to do so and will continue to carry out its normal functions.

Mr HARRISS - Just on that letter of comfort, and I go back to what Ruth was saying, the GBE process, and the Government extended, sorry not the Government, you have provided -

CHAIR - The Treasury extended.

Mr HARRISS - The Treasurer, yes.

Mr GORDON - Correct. The Government provides the letter of comfort, effectively to its State-owned bankers, who then compulsorily lend us the money.

Mr HARRISS - Yes, I understand that. That was extended in February of this year. Is there any suggestion then that government is or has a significant concern about where Forestry is tracking, given that extension, and now only recently announced this new inquiry that they want to mount into Forestry?

Mr GORDON - I do not know. There is a review of Forestry Tasmania's future structure that the Government announced. That review process will presumably go through all of that and my understanding is that the letter of comfort was rolled over in February as just a normal process matter.

There was no negotiation about interest coverages or debt to equity ratios or any of the normal things you would expect to have. It is true that since the last closures by Gunns of its various woodchip mills and sawmills were very short notice and its removal of contractors from State forests is pretty tough.

If there is not a new operator for Triabunna to find a market for the chips that are produced both by sawmillers and from forest operations then it would be a major issue for everyone employed in the forestry sector.

We have alerted government to that issue as we have on a regular basis given briefings on the closure of Triabunna, the closure of Long Reach - two mills, the closure of Hampshire, the closure of Western Junction sawmill on Friday, the closure of the Gunns softwood sawmills, although we understand the Ling Siding mill is going to reopen. We keep government informed and tell them what the likely consequence on our cash flow is as well.

CHAIR - Going on that same line I noticed in your annual report it says that the loans are secured by a floating charge over Forestry Tasmania's debtors and we talked last hearing about how the debtors are pushed out to 91 days at that stage possibly, I do not know if it has changed at all in the last couple of weeks, but it does not matter a great deal whether it has not but if this is how the loans are secured and there is some concern about those debtors making their payments would not that be one of the issues that would perhaps warrant that extension of the letter of comfort?

Mr GORDON - As I said, the letter of comfort was extended without any great debate or negotiations of any issues other than a process one which was there needed to be a new set of covenants issued which were more commercially focused than the previous ones.

CHAIR - Are the loans still secured by a floating charge over Forestry Tasmania's debtors?

Mr GORDON - There has been no change at all to the commercial arrangements between Tascorp and Forestry Tasmania.

CHAIR - So your answer is the loans are still secured over the debtors?

Mr GORDON - If that is what the annual report says then that is still the case. There has been no change.

CHAIR - Is that a concern then that the debtors are pushing out and growing in quantum?

Mr GORDON - I suppose it is always a concern when there has been a substantial campaign to destroy family-owned Tasmanian sawmills, who are the ones mostly affected and they are all suffering.

CHAIR - Are you saying that the majority of these debtors are family-owned sawmillers?

Mr GORDON - There are a whole lot of family-owned sawmillers who currently owe us money. There is obviously Gunns, but there are also other Tasmanian-owned enterprises that owe us money as a result of the substantial reduction in market access caused by Gunns' announcement of removing itself from native forests.

Mr WILKINSON - It is always a difficult area, Bob, is it not, being in private enterprises for many years? It is always difficult to know when to suddenly pull down the shutters because once a person is still trading that person has the ability to repay moneys and if you believe there is going to be an upturn you keep that person alive, so to speak, so in the end they are able to pay back the moneys but continue to trade in the interim. It is always a difficult task and my question to you would be: how do you manage that; are you in constant contact? The major way in which these debts are repaid is if there is constant contact between the creditor and the debtor.

Mr GORDON - Correct. We have a process where we have customer service managers who are in constant contact with each of our customers to check their trading position, their debt level, their future requests for supply of logs or other products and correct, we make those constant judgments at all times. It has been more difficult in the last 18 months when our major customer has, often with short notice, shut down major facilities, which has then caused problems for other customers. For example, the very short notice of the closure of Triabunna has meant that there are a whole lot of Tasmanian family sawmills who are currently storing their residue woodchips from the sawmilling activity in shipping containers and piles on their sawmills. They did not expect that to happen and that has substantially reduced their cash flow.

We could call in the debt and they would probably go into receivership, if that was the case, or we could wait for hopefully a solution to the reopening of Triabunna and they would then quickly trade out of it. That is always the balance point.

CHAIR - What you are referring there, Bob, I think last time we talked about four major customers who made up the dominant amount of those debts, so you are now saying a big portion of that is the private saw millers. Is that correct or have I misunderstood you there?

Mr GORDON - I did not say who the customers were last time and some of those - by private sawmillers you mean public listed companies or unlisted public companies.

CHAIR - Is that including Gunns in with those small operators?

Mr GORDON - No, they are a public listed company. Most of the rest of these companies are not publicly listed.

CHAIR - What percentage would the smaller operators that you just referred to that rely on Triabunna?

Mr GORDON - I don't know off the top of my head. I can look it up if you think it is important.

CHAIR - I think this is one of the issues that we are talking about.

Mr JEFFREYS - Madam Chair, the relationship we have developed with a lot of our customers is based on maintaining confidentiality and trust.

CHAIR - I appreciate that.

Mr JEFFREYS - What we discovered from the last hearing is it does not matter how cautious we are it does cause distress to some of our customers because certain assumptions are made.

CHAIR - You did allude to the fact there was a number of bigger customers that made up the majority of that portion of the unpaid debts.

Mr GORDON - Only one of which is a listed public company.

CHAIR - So there are a lot of smaller ones out there?

Mr GORDON - Yes.

CHAIR - I am not talking about individuals, I am talking about as a group. Are you aware of the percentage they would make up of that outstanding debt?

Mr GORDON - Again, I don't know off the top of my head.

CHAIR - Are you able to provide that? I am not asking individually, I am only asking as a group of -

Mr JEFFREYS - Madam Chair, it is a relatively small market. It is relatively easy to make informed decisions on a paucity of information.

CHAIR - In our last hearing, Bob, in regard to the TCFA funds, and we did write to you about providing a breakdown and I know our letter just talked about the breakdown, but in *Hansard* I did ask you to commit to a year-by-year amount, which our letter did not specifically request. I did ask for the year-by-year breakdown of the TCFA amounts received, amounts spent, amounts expensed together with the closing balance of unspent cash and revenue received in advance. I didn't ask if that had been acquitted and the letter requesting further information also didn't ask about what was being acquitted. So the reason I am having trouble reconciling your accounts, as I explained previously, has to do with these issues.

I just want to go through a bit further and see if you can provide more clarity around this and hopefully provide that information in a year-by-year breakdown.

Mr GORDON - I think what we have provided was what was asked for in the letter.

CHAIR - No, it wasn't.

Mr GORDON - I didn't get sent the *Hansard* so I've got no idea what was said other than my memory of last time.

CHAIR - I can't put my hand on it immediately but the letter asked for amounts received, amounts spent, amounts expensed, together with a closing balance of the unspent cash and the RAIA. What you provided was the funds received, funds acquitted, funds balance, funds receipted and expensed and the balance, not the cash that was spent but then also what was left and not spent.

Can I just take you through this a bit further. In 2009 the Auditor-General stated in his report that the revenue received in advance was \$51 million and the unspent cash was \$40 million, the difference being an unamortised balance of \$11 million relating to roads and new wood. In 2010, new TCFA funds were \$22 million - this is from the cashflow statement - with a further amount of \$10 million expensed.

Mr GORDON - Would you like to table the question? It would make it much easier if I had the exact question that was being asked rather than trying to rely on a memory when I don't get sent the *Hansard*.

CHAIR - The *Hansard* is available on the website.

Mr GORDON - Right. So is there any problem with just tabling the question?

CHAIR - Can I finish reading the question to you?

Mr GORDON - Mm.

CHAIR - The Auditor-General's report in 2009 said the RAIA?? was \$51 million; the unspent cash was \$40 million, the difference being an unamortised balance of \$11 million. That is all there in the Auditor-General's report. Have you got that page? It is on page 19 of this 2008-09 annual report - or his report. I can pass that over to you if you want.

Mr GORDON - We're looking at 2009-10. So this is three year's ago, the annual report.

CHAIR - It is just to give you a bit of background because we can't get to where we are without looking back to where that was. Then in 2010 the new funds that came with \$22 million - that's in your cashflow statement - with a further amount of \$10 million expensed from your profit and loss. So if you do the sums, the RAIA must be \$63 million, I would think; and the unspent cash, about \$9 million, so less than that, so \$54 million. But if you look at your 2010 annual report on page 31, it says the TCFA revenue received in advance is only \$52 million and you don't specify the unspent cash, nor does the Auditor-General in 2010. So what I asked for last time and I ask for again is a year-by-year breakdown of the cash received, of the amounts spent, the unspent cash and the amounts received as revenue and the balance of the revenue from the end-of-year

balances - for the unspent cash and the RAIA that is yet to be expensed on the spread sheet. We can put that in writing to you again.

Mr GORDON - Yes. I think that's one of the tasks that the Auditor-General is looking at, at the moment.

CHAIR - Providing himself?

Mr GORDON - Yes.

CHAIR - Would you agree that's Forestry Tasmania's responsibility to provide that information in the annual report too, though?

Mr GORDON - We have provided it in the annual report. The Auditor-General has commented on it. He's then asked us to clarify several things, which we have provided him, and my understanding is that he is doing some work on it which will further clarify it from his point of view.

CHAIR - Was that asked for just recently?

Mr GORDON - It was asked for, I think, in the last year's annual report he made some recommendations - sorry, in the Auditor-General's report on our annual report. We have provided that extra information and we think it should be in the public arena soon.

CHAIR - Well then, the figures that I just provided you with in the Auditor-General's report, the RAIA of \$50 million and the unspent cash of \$40 million, is that correct?

Mr GORDON - If it's in the annual report, it would be correct.

CHAIR - In the Auditor-General's report.

Mr GORDON - If it's in the Auditor-General's report, it would be correct.

CHAIR - So how do you account for the discrepancy then between the Auditor-General's -

Mr GORDON - I can't remember the question.

CHAIR - The fact that the Auditor-General said it was \$51 million and you said it was less than that, when you add the new money coming in after you get the \$51 million from the Auditor-General's report, you add another \$22 million to that and then with an amount of \$10 million expensed, that should mean \$63 million. In your annual report it says \$54 million, which is a \$9 million difference.

Mr GORDON - If you give me the maths then we will check it because, as I said, the Auditor-General asked us a whole series of questions about TCFA reconciliation, on which we have given him a whole swag of information and my understanding is he is going to report on that given the question was asked about our last annual accounts last year.

CHAIR - Can you provide the committee with that information?

Mr GORDON - If you give me the question so I don't have to remember it, yes, I will.

CHAIR - We will, we will put it in writing to you so you have got it. Thank you.

These are some questions that were asked last time, Bob, that were not specifically answered. We did go down some way to getting some answers for them, but they were glossed over or not fully answered, so I would like to ask a couple of them again. These relate to FT's cashflow that we were talking about previously.

The Auditor-General, as you know, commented in his last three reports to Parliament about FT's negative operating cashflow, so can you tell us what the operating cashflow or your surplus or deficit were for the first six months? It is not clear from your report.

Mr GORDON - In the half-yearly results?

CHAIR - Yes. We just want to get a clear indication of what the operating cashflow is.

Mr GORDON - We did not do the cashflows for that report. We did not do the cash flows like we did not do a whole lot of other things if it was not going to be audited. This was our first attempt, the first GBE SOC to try to put on the public record six-monthly financial statements.

CHAIR - But you do provide monthly reports to Treasury?

Mr GORDON - We do.

CHAIR - We did say this was good to see that FT is actually putting some half-yearly financial figures out, but it did not provide much detail. If you look at ongoing profitability and the financial performance of Forestry Tasmania, isn't the operating cashflow, surplus or deficit, relevant?

Mr GORDON - It is but I am not aware of any public company that provides that information on a monthly basis to its shareholders.

CHAIR - I am not asking for a monthly basis, even though you do provide it to the Treasurer on a monthly basis. Are you able to provide that information?

Mr GORDON - Put it on notice and we will think about it. The problem at the moment is - it would not be audited anyway.

CHAIR - We know it will not be audited and you can come with caveats stating that.

Mr GORDON - I suppose I will go back to the terms of reference and I am just wondering what is behind the questions and the considerable amount of work that we have been asked to do on some of this work at a time when we have a whole lot of other very, very high-priority tasks to do.

CHAIR - I would have thought responding to a committee of Parliament is a high priority as well. Is there an issue with sensitivity around the figure? It can be provided in camera if you are concerned about that?

Mr GORDON - Again, if the committee wants to have the discussion, we have provided some of the other information with a request that it be provided in camera. We have not had a response to that.

CHAIR - Maybe I was presumptive; I thought after attending many of such hearings you would know that if you wanted to provide information in camera during verbal evidence you need to make a request and then explain why you wanted that information in camera, and then the committee would deliberate and consider whether that was appropriate or otherwise.

Mr GORDON - We did make a written request in the information we have already submitted.

CHAIR - For sections of your information?

Mr GORDON - Correct, and we have not received a response to that.

CHAIR - We are not going anywhere near that section of the information at this stage.

Mr GORDON - Right, so how about we consider your question and then put in writing a response to any information which could be used to our detriment commercially and consider it in camera?

CHAIR - Including the question I have just asked?

Mr GORDON - And including the question about debtors, including the questions that were asked, I think, about returns for different product types. We are in a commercial market where already there has been a substantial commercial detriment to Forestry Tasmania because of information we are required to put in our annual report that no commercial entity is required to do.

CHAIR - The annual report is a public document.

Mr GORDON - Correct, but it is not an annual report that would be expected of any publicly listed company.

CHAIR - That is the nature of being a GBE, isn't it.

Mr GORDON - Well, again, if the Parliament thinks we should get less return for our assets and our products, then fine, we will abide by that, but I do not think that is always a conscious decision made by people. Within the last month we have had an incident where, because of the extra information we are required to provide, we have suffered a commercial detriment, about which again I am happy to go into in camera if you wish.

CHAIR - Perhaps we can do that later if there are any other matters which need to be dealt with in camera. Just moving on in the same area, up until 2008 the Auditor-General

provided a table setting out the level of capitalised wages. Presumably this is for wages that relate to capital items such as plantation establishment and roads. It previously ran at about \$3 million per annum, approximately 10 per cent of wages. What was the situation in 2010 for the last phase half year leading up to now, to the mid year?

Mr GORDON - For the proportion of our wages that are capitalised?

CHAIR - Yes.

Mr GORDON - Driven by the roading program and plantation establishment, which are the two major areas of capitalisation. Again, we can take that on notice and give you an answer on that.

CHAIR - If you tell us how capitalised wages are treated on the cash flow statement, are they treated as operating expenses or investing?

Mr GORDON - Investing.

CHAIR - They are treated as investing? What other employee expenses go into capitalised expenses?

Mr GORDON - If it is the capital component of roading, if it is the capital component of plantation establishment and silviculture improvements, we can capitalise some of our energy costs. They are the major components.

CHAIR - So they are for full employee expenses, and annual report note 8D talks about that. Operating wage costs understated at some, sort of hidden away in investment activity such as new plantations or employee expenses reflect the total, including your capitalised wages.

Mr GORDON - I am not sure I quite understand that.

CHAIR - Do your full employee expenses include your capitalised wages?

Mr JEFFREYS - Yes.

Mr GORDON - Do we put a summary sign in our annual accounts?

Ms SHOOBRIDGE - No.

Mr GORDON - So they would be broken down into the activity that is funded. So if it is a capital activity it would appear in that. If it is an operating activity it will appear in that.

CHAIR - So all the capital activity ones appear in the capitalised wages, in investing activities. It appears, Bob, that the capital investing expenditure commitments in note 27 in your annual report are \$28 million over four years. Does this mean that the minimum operating cash surplus needed to pay for the investing amounts is therefore \$7 million per annum?

Mr GORDON - The major capital investment we make is plantations, which are funded from the TCFA as compensation from the forest that was taken off production and off the balance sheet. So again when you look at that capital expenditure it mostly relates to the acquittal of TCFA funds provided for that purpose.

CHAIR - The question is then, this \$28 million over four years, the first year is no longer the one year, which is the next year ahead, I assume, which you are looking at expending is \$9.4 million, and then \$28 million between one and five years, so the coming four years at \$7 million per annum if it is even. It probably will not be exactly even, but does that indicate that you need a minimal operating cash surplus of \$7 million to meet those investing activities?

Mr GORDON - It includes the capital provided by the TCFA.

CHAIR - Doesn't that include it?

Mr GORDON - I don't know. I can't see the line that you are looking at, but again I am happy, if you want to give us the detailed question, to give an answer.

Mr JEFFREYS - Madam Chair, we did write an e-mail inviting the committee to provide the questions they want answered so that we could prepare on any of the matters you wanted to raise. We have not received anything of substance from the committee. I notice you have written them all down. We could have saved a lot of time, that is all.

CHAIR - The committee did have a view that it is best for it to be broad areas because if we were limited to the questions we had sent you then if questions flow from questions asked - as I am sure you are aware - and some things need further clarification and to consolidate all the questions into a letter to you could be taken as being limited to those very questions.

Mr GORDON - You have obviously got a list of questions and if we had been provided with those in advance, we could have answered probably 90 per cent and we then could have focused on the large issues.

Mr JEFFREYS - The difficulty for us is doing a lot of work when we do not know where the committee is heading. That is why we were looking for some direction for no other intent than that to avoid us being called back again and to dedicate more time to researching the questions. That was the only reason that we sought the information or sought the general direction of where you wanted to head.

CHAIR - I guess generally you have probably had GBE hearings before where it is more general, broad-brush questions. We are trying to drill down into the actual financials predominantly. We did change direction slightly into the tourism ventures last time and that sort of thing which is more a process we see in GBEs but -

Mr JEFFREYS - I understand that. Look, Madam Chair, all I am suggesting is that if we had been given an indication, we could have done it. When we are preparing for a GBE hearing it is a good month of preparation. There is a file that is produced and it is a lot of work for the organisation. If we are now required to do it two or three times a year that is another major impact on us trying to do our core business and all we were looking for is

some assistance from you so that we could get the information, save you a lot of time and save us a lot of time. I just think may be we could have been of more assistance with better communication.

CHAIR - We can put a lot of these in writing afterwards but, yes, the question I am trying to get to the bottom of here, and I tried last time and I did not get very far either, was what do you believe is the minimum operating cash surplus that is required per annum?

Mr GORDON - While we still have to meet our obligations or while we are not paid a CSO, I mean that depends on the circumstances.

CHAIR - In running your business the way you run it now with the community service obligations that you have -

Mr GORDON - Which are unfunded.

CHAIR - We accept that, we know that. What do you believe the minimal operating cash surplus required per annum is for the business?

Mr GORDON - And again the acquittal of the TCFA money is almost over and that drives our capital expenditure at the moment.

CHAIR - The answer to the question is?

Mr GORDON - I will take it on notice.

CHAIR - I find it a bit hard to believe that you have not got a ball park figure of what you believe the operating cash flow needs to be to operate your business.

Mr GORDON - I am sure I have but I did not come prepared with the detail you are asking and I am not going to give you an answer which might be incorrect. Again if we had the tabled list of questions we could go through all of them and come prepared.

CHAIR - I have a number of other areas we have not even touched on - the joint venture. I do not know whether that was listed as an area of questioning for you as well.

Mr GORDON - There has already been one parliamentary inquiry on the softwood joint venture last week and I will make the same comments there. If you wish to ask questions about the softwood joint venture you should call the softwood joint venture not Forestry Tasmania.

CHAIR - On what basis do you say that?

Mr GORDON - That is a separate legal entity.

CHAIR - But you did say last hearing that it is a 50 per cent share of the GMO joint venture and that made a profit of about \$3 million per annum.

Mr GORDON - I reckon that's our share of it.

CHAIR - Yes, your share of it, that's what it says. So I put it to you that we could talk about that aspect of it, surely, because that is FT business.

Mr GORDON - Mmm.

CHAIR - Since 2005, Forestry Tasmania's net profit share averaged about \$2 million. It was \$4.4 million in 2010 - it was higher in 2010. Can I ask what extra expense does Forestry Tasmania have to pay as part of its joint venture responsibility such as roads or new plantations and how much do these amount to.

Mr GORDON - The services we provide as a softwood joint venture as an independent contractor listed in our accounts as other income, income for the provision of forest services and that includes fire fighting where we get paid by the softwood joint venture to fight fires and provide basic fire management activities. Those contracts have just been renegotiated.

The roading one has been mostly outsourced because, at the time, some of our other contractual arrangements were that another company would take over roading on State forests in the north-east and it was more appropriate to do that, but they're all separately recorded. They are not an obligation under the joint venture. They are separate commercial arrangements as we do for other people. Some of the other joint ventures we have in hardwood plantations, we are also the manager and we get paid for fire fighting and supervision of operations but they are, for want of a better word, a third party stand alone contractual arrangement.

CHAIR - What extra expenses does FT have to put in that?

Mr GORDON - They're not expenses. Anything associated with the joint venture, they're expenses that FT incurs and gets paid a fee for as a separate contract of the joint venture.

CHAIR - Do you get paid?

Mr GORDON - Correct; we get paid.

CHAIR - So you are not out of pocket at all?

Mr GORDON - Correct.

CHAIR - Are there any other expenses that need to be -

Mr GORDON - We make a small profit on the roading we make; we recover our reasonable costs on the fire fighting and, again, talking about this makes it very difficult for me to go and negotiate a high price for the softwood joint venture.

CHAIR - Where do you want to go with that then?

Mr GORDON - Well, I'm just saying we're in a commercial world where we put in tenders for firefighting and roading and supervisory work for a whole range of separate entities, some of which we have equity in, and for me - well, I'll say then, they're obviously too low because we should be charging more.

CHAIR - That's a matter for FT, isn't it.

Mr GORDON - Mmm.

Mr HARRISS - Madam Chair, I was waiting for Jim to come back because I would like to propose that the committee take a short suspension to reflect on the direction we have been going so that we can continue down this track, if that's the desire of the committee, or indeed broaden it or reduce it if that's the desire of the committee. That would be my proposition to the committee at this juncture and I would think it should only take a short period of time. Anyway, I throw that into the mix and I didn't want to do that with Jim not being in the room. The three of us could have decided and we might have been deliberating without him being here.

Short suspension.