

UNCORRECTED PROOF ISSUE

Thursday 6 December 2018 - House of Assembly - Government Businesses Scrutiny Committee - Sustainable Timber Tasmania

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 6 December 2018

MEMBERS

Mr Hidding (Deputy Chair)
Mr O'Byrne
Ms O'Connor
Mr Shelton (Chair)

SUBSTITUTE MEMBERS

Dr Broad
Ms Haddad
Ms White
Dr Woodruff

IN ATTENDANCE

Hon. Sarah Courtney MP, Minister for Resources

Ministerial Office

Mr Richard Wilson, Chief of Staff
Mr Adrian Lacey, Senior Adviser

Sustainable Timber Tasmania

Mr Rob de Fégely, Chairman
Mr Steve Whiteley, Chief Executive Officer
Mr Chris Brookwell, General Manager, Corporate Services
Suzette Weeding, General Manager, Land Management

The Committee resumed at 2 p.m.

CHAIR (Mr Shelton) - Welcome, everybody, to the table. This deliberation is for three hours until 5.00 p.m. We will break at 3.30 p.m. for a quick coffee or break as people wish, but we need to be aware of the fact that any time taken is not added on.

I also remind members that the microphones are very sensitive and so for Hansard's benefit, when you are moving, shuffling paper work, pouring a glass of water or whatever, please try to keep Hansard in mind. Through the discussion I understand people may wish to ask a second question or make a comment, but please do not interject on each other. That goes for the ministers as well. It is very difficult for Hansard to pick up what is going on if we have two people speaking at once.

The last reminder is about questions on notice. When a question has been put to the minister and the minister agrees to take it on notice, it then needs to go in writing to the committee secretary and they then need to be signed off at the end of the day.

With no further delay in the process, minister, I will hand over to you to make an opening statement.

Ms COURTNEY - Thank you, Chair. As the newly appointed Minister for Resources, I look forward to the challenges and opportunities in this role. First, I thank the contribution of the former minister for resources, Guy Barnett, who was the minister responsible for this portfolio, and Sustainable Timber Tasmania for the period that we have under scrutiny today, the 2017-18 financial year.

Before we talk about the performance of the company, it is worthwhile taking stock of how far this company and the wider industry have come in recent times. When we look back at the ministerial statement made by Mr Barnett in October 2016, we can say we have delivered on our promises, with the benefits beginning to show in the 2017-18 annual results. The Government's objectives as outlined in that ministerial statement were to restructure the company, to create a forest products division focused on managing production and selling wood, and a land management division focused on land management, fire prevention, research and development.

The Forest Products Division was expected to become financially sustainable as soon as practicable. The Government committed to maintain the legislative commitment to make available 137 000 cubic metres of high-quality sawlogs each year, and that has been delivered. The Government determined that the hardwood plantations managed by then Forestry Tasmania for sawlog production required to meet the legislative production requirement would remain in public ownership, and that has been delivered. The remaining hardwood plantations owned by Forestry Tasmania and principally managed for pulpwood production would be sold to retire debt and help fund the business transition, and again, this has been delivered.

The Government remains committed to working with the forest industry to grow the sector. Research and development remain critical to unlocking future opportunities. We saw the first round of investments announced recently under the National Institute for Forest Products Innovation. The call for a second round of applications will be announced very soon.

In terms of the company, there is a reason that Forestry Tasmania is now called Sustainable Timber Tasmania, and that owes much to the vision of the Government and the hard work of the board, the executive team and all of the employees.

Underpinning the structural changes of the past couple of years were a number of principles: the Government accepting that it needs to pay more for community services and the non-commercial contribution made by the company; industry accepting that it needed to pay more for wood; and the company making its contribution through restructuring and further efficiencies.

Aligned with these principles, the company's focus has been sharpened. The Government took over responsibility for the superannuation entitlements of former retired Forestry Tasmania employees and there has been a reduction in some employee numbers at Sustainable Timber Tasmania. The business is running at a high level of efficiency and the changes to the workforce have not been seen at a scale since between 2010-14, when more than 200 employees left the company.

In summing up, the year has been a very good one for Sustainable Timber Tasmania. The underlying profit of \$6 million was an improvement of \$20 million over the previous year and I understand that this was the first underlying profit to be delivered in a decade. There is much more improvement to make and I am confident, based on the turnaround in Tasmania's forest industry, that this company will play its role.

According to the recently released report by independent academic Jacki Schirmer from the University of Canberra, the industry now supports more than 5700 jobs in Tasmania and makes a direct annual contribution of more than \$700 million annually to the state's economy, rising to \$1.2 billion with flow-on effects. Four out of five jobs in the industry are full time and of course the large majority of these are based in regional areas. Exports are at a 10-year high and there are great opportunities available in value-adding industries that are emerging as growers and customers realise the sustainable potential of wood as a building material.

I now hand over to the chairman, Mr Rob de Fégely, to make some introductory remarks.

Mr de FÉGELY - Thank you, minister, and good afternoon everyone. Mr Chairman, thank you for the opportunity to make a few brief remarks on the achievement of Sustainable Timber Tasmania in its inaugural year.

The foundation for a successful 2017-18 was the completion of the forestry rights sale of 29 000 hectares of hardwood plantations to Reliance Forest Fibre. The proceeds from the sale have enabled us to retire all our debt and build a stronger balance sheet and cash position. This was a great outcome for Tasmania, attracting a globally recognised forest management of the Tasmanian forest industry. Our financial position was also strengthened with the savings achieved through restructuring the business, rental savings and reduced pension payments to previous employees.

In addition to these savings, improved pricing and increased product volumes, including 129 000 cubic metres of high-quality eucalypt sawlogs and 10 000 cubic metres of specialist species timbers, contributed to a stronger revenue of \$145 million from forest product sales. In total, 47 Tasmanian businesses were supplied with 1.5 million tonnes of wood produced and \$48 million was paid to haulage and harvest contractors. These and other factors led to a pleasing total comprehensive income result of \$49 million. This is a \$73 million turnaround from the \$24 million loss we reported last year. The underlying result of \$6 million is an improvement of \$20 million on the previous year and these results are a step in the right direction towards our financial sustainability.

UNCORRECTED PROOF ISSUE

I take this opportunity to thank the staff of STT for their efforts in managing to maintain the high levels of production while the necessary changes as part of the restructure have been safely implemented. Successfully and safely managing increased production while undergoing significant internal change is an immense professional achievement. All of us can be very proud of the staff at STT that they have managed to do such great production in a very and secure manner for all of us.

All the native forest area we harvest are regrown for the future. In 2017-18 we planned and established over 6700 hectares for regrowing and we sowed 300 million seeds. We have also maintained 2800 kilometres of roads for forest operations and to provide access to permanent timber productions on land for multiple uses. Production was carefully balanced with the ecology of the forest and the species that depend on it.

A highlight of 2017-18 in this regard is the collaboration between our forest and modelling experts with external swift parrot experts. Their combined efforts developed a spatial model to identify swift parrot habitat in the southern public production forests. The outcomes of this work have to be implemented in 2018-19 and will provide greater certainty for wood planning and improved conservation outcomes for the swift parrot.

The business endeavours to achieve zero harm to our people and contractors, so it was very pleasing that in 2017-18 there was only one lost time injury for our staff. Safety for our contractors continues to be a challenge and an area of focus for everyone in the business. Any injury is one too many and the safety of our operations and our people remains our highest priority.

In anticipation of the recently announced Australian standards for FSC forest management - Forest Stewardship Council - we have been implementing new management regarding high conversation value forests, harvesting practices in old growth forests and working with stakeholders on swift parrot management. The board is strongly committed to achieving FSC certification and we intend to schedule an audit in mid-2019 now that there is an Australian FSC standard in place. In addition to working towards FSC forest management certification, we have also maintained our responsible wood forest management certification, safety and environmental systems certification and a controlled wood FSC certification for plantations.

Finally, I acknowledge and thank my board, in particular Sue Baker, the chair of Finance, Audit and Risk. She has done a phenomenal job over these last two years while we have gone through this restructure. Dr Christine Mucha has been a wonderful support and fount of corporate knowledge of the business over the time that she has been a director. Her six years with STT will come to an end in April next year. Dr Linda Bull, who chaired the plantation sale committee, and Professor Mark Hunt and our most recent appointment, Ms Kathryn Westwood, who would be known to many of you as the chair of RACT. All of them are making a wonderful contribution to the vision and strategy and risk management of Sustainable Timber Tasmania.

Again, I thank our employees and staff and all our contractors for their efforts in delivering these results. It was a great team effort. Thank you very much, Chair, for the opportunity to make some of these brief remarks.

Dr BROAD - In the annual report it is stated that STT delivered 129 000 cubic metres of high-quality eucalypt sawlogs. Did that meet your contracted volumes? The minister in her opening statement mentioned 137 000 cubic metres delivered. Is that -

UNCORRECTED PROOF ISSUE

Ms COURTNEY - Supporting the legislation for that. The Government has continued to support the legislation which underpins that, but I will let the Chair -

Dr BROAD - They have actually delivered 129 000 - does mean that you met your contracted volumes?

Mr de FÉGELY - We haven't actually contracted at 437 000. The legislation requires us to make available that volume and it really depends on whether all our customers actually want it. We had some of our customers this year who asked us to slow down because of the way the market was working and we work with them to do that. I will let our CEO make a couple of comments about that just as to where we got to. In the end we have had a really good result for what everybody was looking for.

Mr WHITELEY - Consistent with our contract we fully met the customer need.

Dr BROAD - You fully met your contracts or your requirements?

Mr WHITELEY - We are consistent with the contract, so the contract volumes are similar to that number. We supplied the customers' requirements, as requested.

Dr BROAD - Sorry, similar to the 129 000 cubic metres?

Mr WHITELEY - Yes.

Dr BROAD - Did these volumes meet the contracted quality?

Mr WHITELEY - Yes.

Dr BROAD - Also it seems that STT are exporting whole logs from northern Tasmanian ports. Can you just give us a bit more information about the exporting of whole logs? The volumes and so on.

Mr WHITELEY - We are not directly exporting any logs.

Dr BROAD - You are not directly?

Mr WHITELEY - No.

Dr BROAD - You are not selling logs to other parties that are exporting?

Mr WHITELEY - There would be potentially a small quantity. In terms of the year we are being scrutinised against I am not sure there was any volume at all. There have been some recent requests from some of the exporters to provide some material, but minimal.

Dr BROAD - Where are those logs coming from then, to the best of your knowledge?

Mr WHITELEY - I am assuming they are coming from private property?

Dr BROAD - All from private forests?

Mr WHITELEY - Yes.

Dr BROAD - Does STT have any intentions to export logs?

Mr WHITELEY - In a minimal way. The priority is to supply our domestic customers. If there is sufficient quantity potentially we will look to separate some logs into the export market that otherwise would go into the chip stream. At the moment all our residues pretty much are being sold to Tasmanian businesses who then export chips, but we have not precluded some supply of logs into the export market. Again, it is simply out of the residue stream.

Dr BROAD - These are logs that do not otherwise meet specifications for the sawmillers?

Mr WHITELEY - That is correct. Or Ta Ann or the peeler business.

Dr BROAD - Right. How many of these surface logs are being thrown up with your current harvest rates?

Mr WHITELEY - I am assuming that is a follow-on question. This is something I have already answered. I am not aware that we supplied anything into the export market last year in any quantity. Across the north we are running a eucalypt plantation thinning program. They tend to be smaller logs. They do not provide much opportunity to be exported into international peeler markets. We have supplied some plantation material to domestic customers for trial purposes. My understanding is, the rest of it has gone into the woodchip simply because it is very small quantities. It is not practical to set up log exports at that scale.

From a native forest point of view, we supply sawmillers three different grades of sawlogs and we also supply Ta Ann. The rest of the logs that fall beneath that have gone into the woodchip residue stream.

Dr BROAD - Given previous public statements by Mr de Fégely and then Mr Barnett about the need for considerable increases in the price for logs sold to customers, can you advise what level of increase you have achieved in the prices received for products sourced from public forests?

Mr WHITELEY - I have gone through a process with our sawmill customers. That commenced two years ago and price increases commenced two years ago. They have been in progress since then. We have real incremental increase from that date for our sawmill customers. We have a price review coming up with one of our other sawmill customers next year. They roll through and they have slightly different timing of their contracts and we will continue to roll that through. Our other customer, Ta Ann, we have scheduled to have a price review.

Dr BROAD - What increases have they seen for sawlogs?

Mr WHITELEY - It is varied. They are commercial-in-confidence with individual customers and they are all independent contracts. We have commenced the process of prices better reflecting the market as it increases and our customers have committed to continue to have their prices reviewed consistent with the market within to which they are selling.

Dr BROAD - There is no guideline percentage or rough estimate?

Mr WHITELEY - From a bill point of view, it was around 10 per cent.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - Minister, from 1 July 2020, the 356 000 hectares of high conservation value forest that was set aside for protection during 2010, 14 will be opened up to logging. Do you want to update the committee on what the plan is there?

Ms COURTNEY - Thank you, Ms O'Connor, I appreciate the question. The land you are referring to is the future potential production forest -

Ms O'CONNOR - It is high conservation value forest as well.

Ms COURTNEY - which was legislated through this parliament to be a wood bank for the future because we know that -

Ms O'CONNOR - No, it is not a wood bank for the future. It was set aside for reserves.

CHAIR - Order, Ms O'Connor. The minister has to answer the questions; you get to ask them.

Ms COURTNEY - Thank you, Chair. The future potential production forest, as we know, are going through two Houses of parliament and there is a range of legislative requirements in that. I am sure you would be aware of the provisions for that to be available in the future. The legislation established specific provisions for access to this land in the future. Any land beyond it has a clearly mandated conversion policy which, once that process has happened, needs to be tabled in parliament as disallowable. There is a clear process and I am not going to pre-empt what is going to happen post 2020.

Ms O'CONNOR - Minister, will you be relying on advice in relation to threatened species from DPIPWE?

Ms COURTNEY - As a department and as a minister, I take a range of advice from a range of areas. With regard to STT, they take advice from a range of areas. Any advice that comes to me from DPIPWE, and in particular the secretary of DPIPWE, is subject to a range of protocols to ensure I get no direct advice from the secretary of DPIPWE. Those protocols are in place and will be adhered to into the future.

Ms O'CONNOR - How will it work in practical terms if advice is required, for example, on impacts on threatened species of logging on any production forest land or future potential production forest land? In practical, mechanical terms, how you will manage that conflict of interest? Is it not in the chain of information that DPIPWE does threatened species assessments? Those assessments would be run through the secretary. At some level the advice must reach you in order for you to make an informed decision about management of that land and the protection of threatened species - not that the protection of threatened species has ever been a priority for your Government.

Ms COURTNEY - I reject the premise of the question with regard to the protection of threatened species. As has been outlined very fulsomely in the House by the Premier -

Ms O'CONNOR - Fulsomely means insincerely. Be careful.

CHAIR - Ms O'Connor, order.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - I am just trying to stop the minister from sounding silly.

Ms COURTNEY - Thank you, Ms O'Connor.

Before I took up this portfolio, the secretary of the Department of Premier and Cabinet along with the Solicitor-General reviewed the potential interactions between myself and the secretary of DPIPWE. On their advice to the Premier, there were no impediments. While there may be limited times where there may be interaction, clear protocols have been set up, suitable delegations have been put in place with regard to both the minister and the secretary. I have no concerns going forward about a perceived conflict of interest because suitable delegations are in place.

Ms O'CONNOR - It is really important that you, as minister, answer this question, not fulsomely, which actually means insincerely, but fully. For example, for advice on threatened species, or the impact of logging on the swift parrot or the giant freshwater crayfish, how does that work in mechanical terms? The people of Tasmania need faith in the process and that you are not conducting yourself in a conflicted manner.

Ms COURTNEY - As I have outlined, Ms O'Connor, there are appropriate delegations.

Ms O'CONNOR - No. Ms Courtney, I know you tried this at the Estimates table at the budget session. It is not going to work for you. You are the minister now. You need to provide some detail, not tell us 'as you outlined before'. How is it going to work?

Ms COURTNEY - It will work, Ms O'Connor, because there are appropriate delegations involved.

Ms O'CONNOR - Don't you know how it is going to work?

Ms COURTNEY - From both the minister and the secretary of DPIPWE.

Ms O'CONNOR - Well, minister -

CHAIR - Moving on.

Ms O'CONNOR - Just hang on a minute, Chair. The question has not been answered. In mechanical terms, people are entitled to know.

CHAIR - You keep interrupting, Ms O'Connor.

Ms O'CONNOR - Because I, and the committee, keep being stonewalled. This a matter of public interest. How do you protect threatened species when there is a clear line of potential conflict between the secretary of DPIPWE and the minister for forests?

CHAIR - The minister has answered that question.

Ms O'CONNOR - She has not.

CHAIR - She has indicated the protocols that are in place. If you continue along that line -

Ms O'CONNOR - I will.

CHAIR - You may try.

Ms O'CONNOR - It is a matter of public interest.

CHAIR - You may try. Once the minister has answered the question, I need the committee to move on to another question. Therefore, I go to Dr Broad for the next question.

Ms O'CONNOR - I will be back because Ms Courtney should be able to answer this question. She is the minister.

Dr BROAD - On page 27 of your annual report it indicated that expenses from operations were up by about \$12 million. Can you explain why the expenses have gone up.

Mr DE FÉGELY - CFO Chris Brookwell can answer that question in greater detail than I can.

Mr BROOKWELL - The expenses are detailed on page 35(b) 1(d) and (b), 1(e) and (f). [TBC]

The increase in costs are less than the increase in revenues. Essentially, we have an improvement in underlying gross margin as a result of the improvement in the pricing on the volume for the residue. So, you have an increase in contract expenses which matches an increase in revenue but overall gross margin has gone up.

Dr BROAD - What would be the breakdown between the increase in freight expenses as opposed to contractor expenses.

Mr BROOKWELL - I would need to take that question on notice.

Dr BROAD - Why was the biological asset valuation decreased by \$47 million?

Mr BROOKWELL - The opening value of the biological asset was approximately \$160 million. That included the plantation estate that was subject to the sale. That essentially reduced the value by approximately the proceeds, which were \$60 million. We had a revaluation upwards by about \$25-\$26 million which increased it to \$130 million.

Dr BROAD - Did the asset sale price for the plantation sale set a precedent which resulted in a decrease in the biological asset valuation?

Mr BROOKWELL - There was a sequence of events where the Treasurer directed STT last year to essentially avoid disclosing the value of the plantation estate subject to sale in the accounts in 2017. The value in the accounts mirrored the expected sale proceeds for that stage of the sale process. When the process completed, the biological asset was reduced by the proceeds amount.

Dr BROAD - For example, if you sell a property for less than it is worth on the books, then that can have the effect of reducing the valuation for neighbouring properties. Do you think a similar analogy is not relevant?

Mr BROOKWELL - First, the sale of the forestry right did not have a material impact on the profit and loss account for the year. The plantation estate that we retained was sawlog regime and the plantation estate we sold was for the pulp regime.

Dr BROAD - I am talking about valuations.

Mr BROOKWELL - The valuation for the remaining estate went up. The drivers for that were linked to the revenue drivers and cost drivers of the business. We have increased prices around the native. In terms of sales prices we have got cost control. The effluxion of time brings the discounted cash flow value of the plantation estate closer, which increases the value of the biological asset.

Dr BROAD - Would you be seeing an increase in the valuation if STT can achieve FSC certification?

Mr de FÉGELY - Maybe I can answer the question, if I may.

CHAIR - Before you do, I need to remind the committee that questions have to be directed to the minister or the Chair.

Mr de FÉGELY - To understand how we value the estate, we follow a process which is outlined in the valuation handbook. You can get a copy through the Institute of Foresters of Australia. Australia and New Zealand probably lead the world in forest valuation and the system that we use.

We are also guided by the Australian Accounting Standards Board, potentially three systems - 113, Fair Value; 141, Agriculture, which is the biological assets; and 116, Property, Plant and Equipment. [TBC] Land is not included now so the property one is not a big issue for us. The main two are fair value and agriculture which is biological assets.

The valuers are required to look at the three systems. The first one is the cost approach which is an assessment of what it would cost to replace the asset. We have value in both our natural forests and our planted forests. The planted forest is relatively straight forward, particularly if it is young. You can say, 'If it gets burnt, what would it cost to put it back in the ground again?' Natural forests are a much more complex process. Sales comparison, which is what real estate agents use - the house down the road, three bedrooms, one bathroom, one garage whatever; another house up the road - they use comparisons all the time.

Trying to do a comparison between one plantation estate and another is very difficult. Comparing sales can only be done through an implied discount rate of return as most of them are commercial-in-confidence. You can say, 'If I use industry-known costs and industry-known revenues, then I can bring those together and I might be able to work out what discount rate they use because of the published sale price.' You work it backwards.

It is not easy because all forests are different. They may be pruned; they might be unpruned. They might be thinned. They are in different places, different points to the market place. So, sales comparison is pretty tricky.

Then you have the third system which is the income approach which is a discounted cash flow. The things that really make a big impact on evaluation is the current log price. Given export prices have gone up significantly since I've been in the chair at STT we've seen an increase in plantation values across the board, particularly those in the north. Those in the south are still struggling a bit because it is hard to get them to market.

If you look at projected cashflows, if the plantation is fully matured and is one block you can say, 'What's it worth today? We can cut it down tomorrow', and that is a relatively simple process, but when you have different age classes in different parts of the state it's a complex process. Trying to do an analogy between that sale and what the plantation is actually worth is really quite difficult.

We are very pleased as a board with the sale price we received. We're also very pleased to have a new player in the marketplace down here in Reliance. I think it was a good deal for Tasmania on both sides. It worked well.

The things that will drive value are the discount rate that is used, the log price, what your view of log prices are - normally the log price is the biggest thing that drives it, so what that is doing in the marketplace - and then the growth rate, how well it is going to grow and your projection on how those particular plantations will grow. Depending on if you have it up or down a couple of cubic metres can make a big difference.

Ms O'CONNOR - Minister, you said earlier that you had outlined the protocols. Can you outline to the committee the protocol for managing that conflict of interest?

Ms COURTNEY - As I said before, Ms O'Connor, advice has been sought from the secretary of the Department of Premier and Cabinet as well as the Solicitor-General, and appropriate protocols are in place to ensure no advice goes from the secretary of DPIPWE to myself.

Ms O'CONNOR - Minister, I'm finding it a bit hard to understand why you wouldn't outline the protocol?

Ms COURTNEY - I have, Ms O'Connor. The delegations are in place to ensure that any perceived or real conflict of interest is managed and doesn't occur.

Ms O'CONNOR - If we can have a look at -

CHAIR - Order, Ms O'Connor.

Ms O'CONNOR - Thank you, Chair. This is the potentially enormous conflict of interest that you have as minister, which are the areas of forest, the 356 000 hectares, that will become available on 1 July 2020 to loggers. Are you actually saying that you will not receive nor request any advice from the secretary of DPIPWE, or indeed from DPIPWE itself, when you make this decision on the future of those forests?

Ms COURTNEY - I reject the premise of your question.

Ms O'CONNOR - Which part of it do you object to?

CHAIR - Ms O'Connor, order.

Ms COURTNEY - After 2020, as you know, there is a clear process for which that future production timber may become available, including having to be able to go to parliament. In terms of the conversion process -

Ms O'CONNOR - I know that, because I was there when that dodgy legislation went through.

Ms COURTNEY - When it was passed by both Houses of parliament?

Ms O'CONNOR - Yes, because your people had the numbers downstairs which they no longer have. Can you explain, minister, how you can avoid a conflict of interest when this vast area of forest will become available to logging and there will need to be advice to you from the Department of Primary Industries, Parks, Water and the Environment? The advice will be generated internally and presumably it will go up through the secretary of the department and somehow find its way to you. Is the way to manage this conflict of interest in your mind that it is not first-hand information from the secretary? Or will you not be seeking advice from DPIPWE on threatened species and other important areas of forest management? As you know, minister, these areas of forest are managed by DPIPWE.

Ms COURTNEY - As has been outlined, in regard to advice that comes to me, if there is any potential for conflict any of those relationships will be delegated, whether it's through my ministry or through the secretary of DPIPWE. I can be no more clear that advice will not come to me via the secretary of DPIPWE.

Ms O'CONNOR - Okay. In terms of threatened species -

CHAIR - Last question, Ms O'Connor.

Ms O'CONNOR - I tried not to interrupt this time so I could get a reasonably fair run at questions but that is okay, Chair; I know this is Forestry Tasmania estimates and this is the way it is going to be.

Minister, how are you going to make a determination, not only in relation to the 356 000 hectares, but any other area of forest in Tasmania including rainforest reserves, which your Government wants to log, and conservation areas? How are you going to make an informed judgment about the impact on threatened species, for example, if you are not accepting advice which has been signed off by the secretary of DPIPWE?

Ms COURTNEY - As I have outlined -

Ms O'CONNOR - This is tedious repetition.

Ms COURTNEY - I suggest there is tedious repetition in the question. Ms O'Connor, I have outlined that there will be delegations in place to ensure advice does not come from the secretary of DPIPWE.

Ms O'CONNOR - You are stonewalling.

Ms COURTNEY - No, I am answering your question. I can't help it if you don't like the answers, Ms O'Connor.

Ms O'CONNOR - Why can't you give a straight answer about how the protocol will protect the public interest?

CHAIR - Order, Ms O'Connor. Mr Hidding has the next question.

UNCORRECTED PROOF ISSUE

Mrs HISCUTT - Minister, back on 29 September 2016 FT tabled in parliament advice then as to the commercial picture for that company. The operating profit reported by STT this year appears to be in stark contrast, a very positive contrast, to that in 2016. Can the chair and/or the CEO outline to the committee the principal reasons for the turnaround and the degree of confidence held by the board that it will be sustained?

Ms COURTNEY - I will ask the chair to answer this one considering it relates to information from 2016.

Mr de FÉGELY - Back when I was appointed in June 2016 the board spent considerable time reviewing the position of then Forestry Tasmania and a number of issues that needed to be addressed. We outlined a program of projects that we thought needed to be undertaken to bring the business back to financial sustainability, which is what the Government was asking us to do and the ministers at the time.

I am very pleased to say that we have largely met most of those projects but, in short, a lot of those are to do with contracting residues here in the south and even though that is still a work in progress it is something we are working very hard on. We increased sawlog prices for our high-quality sawlogs. There is more work we can do.

I have been in discussion with the chairman of FIAT and he is also of a mind to try to reposition the quality of Tasmanian timber, not unlike the way Wine Tasmania has done with our wines to get a premium. I am very impressed with some of what I have seen from Wine Tasmania in that the average sale of wine from Tasmania is significantly higher than the mainland. There is no reason we can't do that with Tasmanian timber. He and I have been talking about how we can reposition that. That is also a work in progress so hopefully that will bring profitability up for both processes and forest growers in the state.

We restructured a number of things we were working on and the way in which we did it. As the minister said, we developed two operating divisions, the Products Division and the Land Management Division, to manage the areas of land that are either out of production or in our own reserve structure. We focused on our core commercial opportunities and accountabilities for responsibilities, and I thank the CFO and the general management team for the way in which they did that. We looked at our office accommodation. We moved from the old office in Melville Street to a much more modern and good space in Bathurst Street. That is a far better working environment and we saved a significant amount of money in that process.

The sale of the 29 000 hectares of pulpwood plantation removed our debt. We were paying quite a significant amount of interest at the time and that has allowed us to pay off our debt and also put some money in the bank which allows us to invest in the future. That was certainly a positive step.

We sadly had to reduce our full-time employees from about 180 to about 145. We might be sitting this year at about 149. We had to recruit in some places in line with the new restructure but that has generally gone through very well and we had all of that done pretty much by the beginning of STT's life in July last year. The other big thing is that we are very grateful to the Government for taking over our RBF liability for those employees who are no longer with Sustainable Timber Tasmania. The previous minister mentioned at one point that we had more pensioners than employees and it was a big drain on the organisation.

UNCORRECTED PROOF ISSUE

We sold our non-core businesses; Tahune, the AirWalk has been sold. We are very much concentrating on wood production and land management and the new system is working very well.

Mr HIDDING - Dr Broad referred earlier to the price we are achieving. One of the key messages of the detractors of the forest industry over the years has been that we are giving our wood away.

Ms O'CONNOR - Not quite. You are selling it for less than the cost of production, which is true.

Mr HIDDING - Selling it too cheap. Whether it is true or not, that was one of the issues. I notice the revenue in this year in question has gone up by \$23 million. That is a marked increase. How much of that is due to margin control, moving up the price of the product into its premium range? How much of that \$23 million is related to price?

Mr de FÉGELY - I will ask Mr Brookwell to give you some details on that. I know it in general terms as to what we have done. Mr Whiteley has already talked about sawlogs and I can assure you residue prices have moved up. When I started, the export price for plantation chips was in the high 120s. We are now negotiating around 170 and that is a combination of a lift in price and the drop in the Australian dollar from doing our numbers at 80 cents, we are now doing around 72 to 73. We get a double benefit.

Mr BROOKWELL - The revenue increased by approximately \$23 million and of that about a quarter flowed through to margin. It is just over \$5 million and that was one of the main contributors to the \$20 million improvement in underlying profit. If we make an underlying profit, our revenue has to exceed the cost of production. Of the 5.3, volume was a key part as was price increase and prices influenced by FX, as the Chair has mentioned.

Mr HIDDING - A great trend.

Dr BROAD - Minister, getting back to the issue of the revaluation of the biological assets. A sale price was achieved of around \$60 million but the readjustment was \$47 million. You sell \$60 million worth of assets and your biological price goes down \$47 million. Yet, in the answer a minute ago, Mr Brookwell said that other estates went up by \$25 million. That leaves \$12 million that is unaccounted for. Does that mean the real valuation for the plantations was that difference, which is \$72 million in total or \$12 million extra?

Mr BROOKWELL - I am not familiar with the \$47 million. Can you explain where you received your figures from?

Dr BROAD - That is from the revaluation of your biological assets which was a reduction in \$47 million.

Mr BROOKWELL - Can you show me where that is?

Dr BROAD - That is page 27.

Mr BROOKWELL - That is in 2017.

Dr BROAD - The biological asset valuation was 2017?

Mr BROOKS - The revaluation of the asset was an output \$26 million.

Ms O'CONNOR - What is the valuation of it now?

Mr BROOKWELL - The estate in the balance sheet at the end of the financial year is worth \$131 million.

Ms O'CONNOR - In biological asset terms.

Mr BROOKWELL - Yes.

Mr HIDDING - That is up from last year?

Mr BROOKWELL - I will go through the reconciliation. It started the year at \$160 million approximately and it reduced by the relevant amount of the proceeds for the sale.

Dr BROAD - So \$60 million or thereabouts?

Mr BROOKWELL - There are some elements of the proceeds which are commercial but it was one-for-one reduction for the relevant dollars received and then the revaluation upwards was \$26.6 million.

Dr BROAD - Your reductions are one-for-one, but then you have an uplift of \$26 million.

Mr BROOKWELL - The uplift was driven by the revaluation performed by the independent forest valuer and the uplift was to take the estate that was owned at the end of the year. Since the opening valuation at the beginning of the year, because STT has been successfully increasing prices to customers containing costs and we are a year closer to harvesting the plantation estate, all those features taken into account - not related to the portion of the estate that we sold - increases the value of what we returned.

Ms O'CONNOR - It is interesting that there can be such an uplift in value in 29 000 hectares have been sold. It is quite incredible really.

Mr BROOKWELL - It was independently valued and audited.

Ms O'CONNOR - Well done.

Dr BROAD - Minister, what was Mr de Fégely's conflict of interest that resulted in his abstaining from the plantation purchase discussion?

Ms COURTNEY - I will let you outline it and perhaps the process.

Mr de FÉGELY - Thank you, Dr Broad. For those who do not know, I have worked in the Australian forest industry for 38 years and I have been involved in a number of sale processes in the past. Here in Tasmania, I worked for North Forest Products when it was owned by Rio Tinto. It was sold to Gunns. I have done a number of others in other states.

UNCORRECTED PROOF ISSUE

We had a probity adviser from Wise Lord & Ferguson advising the board and the general management team throughout the sale process. Given I had significant knowledge of plantation sales, I have also made significant contacts. Nearly all of the potential bidders I have probably worked for at some stage. It was a difficult position.

I spoke to Wise Lord & Ferguson and they said, 'Given the processes you have in place you are absolutely appropriate and fine'. However, I spoke to both ministers and they said, 'We would feel comfortable if you stepped out of the process'. Too many people would come and talk to me and I would have to shut them down and say, 'I cannot not discuss any of that'. It is easier if I am just not part of any that. I had no conversations, I did not attend any meetings, and I stayed right away from the process while it went through.

I did make a comment to the secretary of the Department of State Growth and the secretary of the Department of Treasury that I thought the way the team ran the sale process was text book. All I could see of it was from the outside and I felt quite comfortable that they ran a very good process.

Dr BROAD - Minister, why is STT holding \$45 million in cash and equivalents?

Ms COURTNEY - At the end of the financial year? I will defer to Chris to talk through that.

Dr BROAD - It is up to \$42 million from 2017.

Mr BROOKWELL - The underlying profit to start with was \$6 million and that generated cash flow from operations which is positive for the first time of \$12 million. In addition to that, we generated \$60 million from the proceeds of the plantation sale and we retired all of the debts that we had at the beginning of the year, which was approximately \$30 million. We ended up with \$48 million in the bank at the end of the year.

Dr BROAD - What is the plan to do with that money? There is a lot of money sitting on your balance sheet.

Ms O'CONNOR - They don't have to put their hands out for a subsidy.

Ms COURTNEY - In terms of capital management for the company, some aspects of that is up to the company and other parts of capital management is a conversation between the shareholder ministers, myself and the Treasurer, going forward.

Dr BROAD - No special dividend in the wings or anything like that?

Ms COURTNEY - There have been special dividends flagged and perhaps I will go to Chris -

Ms O'CONNOR - Another subsidy?

Mr BROOKWELL - The special dividend of \$15 million was paid on 3 December and so we were consulted as an organisation by the former minister and the Treasurer in relation to that, and that has been paid.

Dr BROAD - That is not inclusive in this \$45 million though?

UNCORRECTED PROOF ISSUE

CHAIR - You can come back to that, Dr Broad. I promised Ms O'Connor that she could have the next question.

Ms O'CONNOR - Minister, we have just learned at the table that STT has received another subsidy of \$15 million which has been described as a special dividend.

Ms COURTNEY - From STT to Treasury?

Mr HIDDING - No, the other way.

Ms O'CONNOR - I see, how amazing is that? Can I ask, given that a commitment has been made to -

Mr HIDDING - No, you were \$30 million out, \$15 million one way, \$15 million the other.

Ms O'CONNOR - We are so used to it going completely the other way.

Minister, we now know that there is \$45 million in cash reserves sitting in STT's account. Is that money that is designed to get STT's operations through the next couple of years, and what are the real financial possibilities of STT not having to come back for another subsidy, cash injection, request to sell more trees?

Ms COURTNEY - The former ministers have made it very clear and, in particular, minister Guy Barnett, wanted STT to be on a sustainable footing into the future. That has been made clear by the Government in its ministerial statement. There is a range of community service obligations, such as roads and firefighting, that STT continues to deliver for the community.

With regard to the capital structure going forward it is a time of transition at the moment. It has been a huge transition the last 12 months. We have a broader government dividend policy across our GBEs. We are going to work with Sustainable Timber Tasmania along with the Treasurer around capital management into the future.

Ms O'CONNOR - Minister, in November 2018 STT signed onto the new FSC forestry standard and certification for logging in native forests. What involvement in developing a standard did STT have?

Ms COURTNEY - I might go to Suzette who has been heavily involved with the standard.

Ms WEEDING - I was involved on the standards development group for the past five years, developing the Australian national standard. Five years ago, a call was put out for expressions of interest from interested parties to apply to be on the standards development group. The standards development group was nine people, three from the economic chamber, three from the environment chamber, and three from the social chamber. It is a balanced group which worked over the last five years to develop the Australian national standard.

Ms O'CONNOR - Thank you, Suzette. Minister, is STT confident that it can meet the standard and secure this certification for native forest logging in Tasmania? If so, by when? If you believe that it will be, contrary to all the available evidence, what gives you that confidence?

Ms COURTNEY - With regards to timing and confidence of STT, I will let them speak for themselves. As a government, we have said we have supported their ambitions and we are very hopeful. With regard to the details about timing and the process that still has to come, it is probably best for Steve or Suzette to -

Ms O'CONNOR - Can I get some clarification there, minister? You have said that you support STT's ambition to secure forest stewardship certification, which has not been achieved in the past seven years. Is your Government committed to STT securing FSC?

Ms COURTNEY - We fully support what they are doing. We fully support their pursuing the certification.

Ms O'CONNOR - Perhaps on your indulgence, minister, is there confidence that STT will meet the standard? If so, by when? What factors in STT's operations gives you that confidence?

Ms WEEDING - We have been working on our Forest Stewardship Council certification pathway since late 2013 in relation to an announcement. We undertook a certification audit back in 2014 against the interim standard. These are the standards that predate the current Australian national standard. As was publicly announced at that time, we were assessed against over 200 indicators and achieved 90 per cent compliance in relation to the indicators. We received nine major non-conformances. It is 100 per cent pass mark and we are quite clear in that. The areas of non-conformance were in how we manage old growth, management of high conservation values, managing threatened species including swift parrot and masked owl in particular, and ineffective monitoring processes.

In the interim period we have been working quite hard on closing out those non-conformances, undertaking changes to our practices to old growth management, implementing practices that we no longer clear fell in coupes containing old growth - those that are greater than 25 per cent by area. We have undertaken quite a comprehensive project around swift parrot habitat management, as mentioned earlier, using LiDAR mapping to identify habitat at the landscape and working through that process. We have revised our high-conservation values, assessment and management approach and went through a public consultation phase in relation to that plan. We have been undertaking further work on our effectiveness monitoring internally with a range of external stakeholders. There is a whole suite of work that has been going on behind the scenes in relation to how we close out those non-conformances.

We were in a position where we felt we could undertake a certification audit against those non-conformances in the last 12 months, knowing that the national standard was coming up there was very little point in getting certification and seeking to close out those non-conformances against the interim standard. In consultation with our certification body we chose to wait until the national standard was in place, after which we will seek certification against that.

The work we have done to date will enhance our ability to make the standard requirements. It is an independent process. There is an independent certification body that comes in and assesses our performance. There are no guarantees in life but at the end of the day all we can do is put our best foot forward in terms of our forest management on our system and the work that we have done to close out those non-conformances and go through and audit and see where we stand. Thank you.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - Minister, do the environment groups who took part in the development of the FSC certification process share STT's apparent confidence that certification will be secured?

Ms COURTNEY - I am not going to speak on behalf of environmental groups, but I can speak on behalf of the Government. As a Government we are very supportive of their efforts.

Ms O'CONNOR - Do you understand how FSC was developed?

Ms COURTNEY - We are very hopeful for a positive response. Obviously, a lot of work has gone into this from STT. It is something that I know from a senior management level, a board level, that they are very focused on. I am very hopeful for a positive outcome.

Ms O'CONNOR - Could you ask Mr Whiteley to have a chat about the engagement with environment groups specifically on the FSC issue?

Ms COURTNEY - I am more than happy to ask him to have a chat.

Mr WHITELEY - Thanks for the question.

We actively run an ongoing stakeholder engagement, not just about certification but broadly consulting with a range of stakeholders, including directly with the environment groups. When it comes to matters of interest around threatened species, along with the broader FSC and certification scope of interest, we consult directly.

In summary the environment groups are supportive of the work we are doing. Recently, the Wilderness Society's national leader publicly commended the work that we have done to date. I think all the groups are looking forward to the next round when we go to audit again and see how much progress we have made.

Ms O'CONNOR - Are you confident that FSC certification will be achieved?

Mr WHITELEY - It is really about the standard. We have done the work towards that. We cannot speak for an auditor. Like any independent process, as Suzette said, we can put our best foot forward. We have the standard to refer to. We have reference to the previous comments made by the audit some time ago. Also, importantly, we are consulting with various groups and seeking their views about the work we have been doing.

It has been progressive. It was not simply to do something a number of years ago and then do nothing and wait. We have been talking to these groups all the way through, particularly with the work recently we have been doing with swift parrot management. We have actively consulted with environment groups along the way and included them within the scope of our work. They have assisted us in shaping the work that we have done.

Ms O'CONNOR - They do want you to be the best you can be Mr Whiteley - not you, STT.

Dr BROAD - Now that we understand that the Government is considering future dividends from Sustainable Timber Tasmania, when will that happen and how much is under consideration?

Ms COURTNEY - Dr Broad, I am not going to pre-empt the future with regard to where STT is going to be. They have obviously been through a period of substantial change. We have received

UNCORRECTED PROOF ISSUE

the special dividend that they have paid. The Government has a clear dividend policy; however, we always review that on a case-to-case basis with GBEs. It is a matter for the Treasurer and I to work through with the Chair and the Board.

Dr BROAD - How much does Majestic Timbers owe Sustainable Timber Tasmania?

Mr WHITELEY - They do owe us a sum of money but no more than the guaranteed till.

Dr BROAD - Are you aware that Majestic Timbers has a number of outstanding debts across the state?

Mr WHITELEY - Not specifically. Anecdotally, we are aware of commentary about it but we have no visibility over their business. About half of their business is with private growers. Clearly, we are aware in our area, where they operate on public land but they also operate on private land. We have no visibility over that.

Dr BROAD - How much is that guarantee that you hold?

Mr WHITELEY - That's commercial-in-confidence.

Dr BROAD - Is it a significant sum?

Mr WHITELEY - It's just a normal trading policy. Like all of these providers there is a provision made that's sufficient. We have a debt management committee that sets those and they are operating within that in terms of the security we hold.

Ms O'CONNOR - Why would that be commercial-in-confidence? It's debt owed to the people of Tasmania.

Mr WHITELEY - We're not exposed, is the short answer.

Dr BROAD - Minister, are you concerned that Majestic Timbers may not be here for the long haul?

Ms COURTNEY - We're working with Majestic Timbers. We understand that there are some difficulties with the operation and we will work with Majestic, with contractors and with the entire industry going forward.

Dr BROAD - Is Majestic Timbers under some sort of suspension from Sustainable Timber Tasmania?

Ms COURTNEY - I will have to defer that to the CEO.

Mr WHITELEY - No, we don't suspend. They are a purchaser of wood from us. Effectively the security we hold comes back to the EOI process. They were a bidder to purchase residues. There is an estimated level of production. We hold adequate security to hold a couple of months' worth of trading and they are operating within that. In terms of purchasing, we don't suspend them, if you like, they moderate the level of activity to suit their markets.

UNCORRECTED PROOF ISSUE

Dr BROAD - Is Sustainable Timber Tasmania therefore still providing timber or product to Majestic Timbers?

Mr WHITELEY - That wood is made available to them, yes.

Dr BROAD - But are they taking it?

Mr WHITELEY - At the moment they've suspended their operations.

Dr BROAD - They've suspended their operations.

Mr WHITELEY - That's an operational suspension. I think you are aware that they need to find a different route to market, and they inform us that they've got strong customer demand but they've been disrupted from 12 September with Swire Shipping discontinuing the service out of Hobart.

Dr BROAD - When was the last sale to Majestic Timbers?

Mr WHITELEY - The last activity?

Dr BROAD - Yes.

Ms WHITE - I think end of October.

Dr BROAD - So the end of October was the last time they purchased timber or they took timber?

Ms WHITE - What is happening to that residue now then?

Mr WHITELEY - They are not operating to the extent that it's not -

Dr BROAD - So where is the residue going? Is it just sitting there?

Mr WHITELEY - In fact, their harvesting operations may have been scaled back.

Dr BROAD - So in terms of operations in public assets have they stopped and are only operating - if they are operating at all - on private land; is that what you are saying?

Mr WHITELEY - They have recently suspended their operations on public land.

Dr BROAD - So have they suspended everything?

Mr WHITELEY - I wouldn't know.

CHAIR - That's not a question that is relevant. There is no way that the members would know that answer.

Dr BROAD - Going back to the awarding of the tender to Majestic Timbers, was STT instructed by Treasury to take on Majestic Timbers? How did that process work?

UNCORRECTED PROOF ISSUE

Ms COURTNEY - With regard to the initial EOI process that was conducted by Treasury, my understanding is that advice was provided by Treasury to the board.

Mr HIDDING - Including Deloitte's.

Ms COURTNEY - And a decision was made by the board based on the Treasury advice from that EOI process.

Dr BROAD - Given that they have currently suspended their operations, do you regret awarding that to Majestic Timbers?

Ms COURTNEY - With regard to the situation with Majestic at the moment we will work with industry, as we have in the past. My understanding is this is due to an issue that has arisen because of shipping and a service that had stopped. The EOI process was conducted by Treasury. Their advice was provided to STT and I understand the board made a decision based on that advice.

Dr BROAD - Now they've suspended, but do they have another export option if Swire pulled out?

Ms COURTNEY - With regard to STT?

Dr BROAD - With regard to Majestic Timbers.

Ms COURTNEY - I cannot speak with regard to Majestic Timbers.

Dr BROAD - They are taking all the residues so it is of concern to the minister, isn't it?

Ms COURTNEY - With regard to the industry, whenever an operation is suspended or there is a suspension in shipping that is always a concern. However, as a government we will work proactively with them, as we do. Obviously this was a matter that arose only a few months ago with regard to the shipping service that ceased but the EOI process was conducted by Treasury, advice was provided to the board of STT and they made a decision based on that.

Ms O'CONNOR - Minister, perhaps this is a question that is better answered by the chair of the board. Can you confirm that the business case that underpinned the awarding of the residues contract to Majestic Timbers was dependent on access to the Commonwealth freight equalisation scheme? That is a question I hope the chair of the board will answer. How confident are you, minister, or chair, that this was as rigorous an assessment of the business case of Majestic Timbers and the solidity, if you like, of its capacity to operate here?

Ms COURTNEY - Thank you for the question. I will get the chair to provide more details. It is important to remember that freight equalisation is a legitimate mechanism the federal government provides to support Tasmanians and a lot of Tasmanian business cases require freight equalisation to be part of their business model so that is not a unique circumstance. I will have the chair comment on anything else in regard to that. As to decisions that are made, it is wonderful to be able to have a crystal ball but my advice is that it has been the loss of the shipping service that has created these challenges. As with any business, it is unable to foresee or predict what things may occur but with regard to the decision I will let the chair answer that one.

Mr de FÉGELY - Thank you, minister. The process, Ms O'Connor, as you would remember, was run by Deloitte, and that was coming to an end when I was appointed to the chair. They were briefed by Treasury. Deloitte was doing the due diligence on the expressions of interest with some guidance from us on logistical factors and volumes. Correct me if I am wrong on that, Steve, but essentially Deloitte ran that process and these guys came through that process.

This is a real process that the minister highlighted about logistics because the market in Asia is still very strong. The reason we are seeing these newer entrants turning up in Tasmania, some of whom have been in the press recently, is because demand in Asia is still very strong. Majestic's big problem was the loss of the Swire resource to be able to load containers in Hobart. That has caused a significant problem for them, which is why they have suspended their operation, as I understand it. Our board has not been briefed, so this is breaking news that we only heard about a couple of days ago. It is changing by the minute. We will obviously be looking for more detail next week when our board meets.

Underlying this at the moment is strong demand in Asia for peeler logs. We hope we can create an opportunity for value-added processing here in Tasmania. These contracts were relatively short term but with the idea of developing something that was producing a high value product in the long term which would be demanded.

Ms O'CONNOR - Did it give the board any cause for concern when they understood that Majestic Timbers actually formed after the expressions of interest process began and was in effect a \$1 company that had been pulled together in order to submit an expression of interest, I gather? Did it give the board any pause that this company had no track record in Tasmania or indeed in Australia?

Mr de FÉGELY - The board was keen to understand what options there were and this was a process which was run by Deloitte. We took a lot of the information they provided to us. The southern residues have been a challenge for us for some time and we are looking for opportunities and options. The board felt that as an interim step, these opportunities were there and potentially viable and that is without Swire Shipping working out of Hobart. That has changed the game for them.

Fundamentally, the market is there and we will expect, if Majestic cannot, for whatever reason, reform their business and restructure in some form, I doubt whether it will a particularly long time before somebody else comes and says, 'please, can we have a go'.

Ms O'CONNOR - On the due diligence of the board issue. The expressions of interest process for southern residues was announced on 8 July 2016. On 18 July in that same year, Majestic Timbers registered as a company. I repeat my question: did that not give the board any cause that you had a newly-formed company that had been formed with the specific intent of capitalising on the expressions of interest process, it had no track record. Its business case rested on the Commonwealth freight equalisation scheme and it has now fallen over.

Mr HIDDING - You do not know that.

Ms O'CONNOR - I do know that.

Mr HIDDING - You do not because this is not a federal inquiry.

Ms O'CONNOR - Okay. You do not need to run interference for the chair. It is my crack at a question, thanks very much.

Mr HIDDING - You keep raising this red herring.

Ms O'CONNOR - It is not a red herring. It is only public money.

I will take the Commonwealth freight equalisation scheme out of it. Wasn't the board a bit concerned that this company -

Mr de FÉGELY - No, I think I have answered the question for you, Ms O'Connor.

Ms O'CONNOR - I am not sure you have, Mr de Fégely, with respect.

Mr de FÉGELY - With respect, I think I have.

Ms O'CONNOR - This is a GBE inquiry and you are the chair of STT's board. We are talking about public forests, public resources and a private company that formed 10 days after an expressions of interest process was announced to capitalise on public forests. The question needs to be answered. Did the board ask any questions about this company?

Mr de FÉGELY - We are looking at all operators.

Ms O'CONNOR - About this new company, were there any questions asked?

Mr de FÉGELY - This process was run outside of our board. We were provided with the expressions of interest and who was there. It was a relatively short list and Deloitte's -

Ms O'CONNOR - How many companies, one?

CHAIR - Order, Ms O'Connor.

Mr de FÉGELY - No, I cannot tell you that because I cannot remember. I know there was a list and Deloitte's ran the process. We did not run the process. Treasury engaged Deloitte's to run that process and that is the process that was run.

Ms O'CONNOR - The decision was the board's?

Mr de FÉGELY - Ultimately, we made the decision on who we would engage to run, based on the information that was provided and a series of meetings that were held.

Ms O'CONNOR - Now that company has fallen over -

CHAIR - Order, Ms O'Connor.

Mr HIDDING - Minister, the Blue Derby Mountain Bike Trail happens to be in the electorate of Bass. I know you have been up there a lot. You are now the minister and I know you would be delighted about that for Sustainable Timber Tasmania. I am aware you have personal experience in this tourist attraction. Can you describe the role STT has played in this development?

Members interjecting.

CHAIR - Order. I will not ask the minister to continue until the conversation stops on my left.

Ms COURTNEY - I am pleased that you raised this because what has happened at Derby has been a great win for the community. It was wonderful to see the development of these mountain biking tracks was led by the community. I know there are a number of mountain biking enthusiasts, such as Ben Mather and Rowena Fry, who led a number of events in years gone by.

It is positive to see that Sustainable Timber Tasmania, I think it was FT originally when it first provided support, has worked collaboratively with the community, particularly around harvesting plans in the area. I know the head of a large event they had last year, the Shimano Enduro Tasmania where they had thousands of visitors from interstate, said being able to work collaboratively with STT made a really big difference for both formation of the tracks and also for the tourism experience. It also shows how multi-use our forests can be in Tasmania, because as you would know, Mr Hidding, that entire region has been a rich mining area and has a rich mining heritage. The fact that we have mountain biking trails there that are generating jobs in regional areas, creating great economic value, creating careers for young people is really exciting.

We are seeing lots of people visiting, and I was really excited as well that STT, then Forestry Tasmania, also provided sponsorship to the EWS. Again, Mr Hidding, it was wonderful to be able to see multi-use areas celebrating the amazing forests that we have in Tasmania and the fact that we can have mountain biking. Historically we have had mining, I know they have running events coming up there, and we can still have a production forest. One thing about the community in the north-east particularly, they have a deep understanding of that, a deep heritage within forestry and so seeing that public asset being utilised for so many purposes is really exciting. It is a great example of how we can use our forests for multipurposes, whether that is mining, forestry, recreational uses, and it is a really strong story for Tasmania to be able to tell the world.

Ms O'CONNOR - It is the Tasmanian Forest Agreement story, is what it is, minister, as you know.

CHAIR - Order, Ms O'Connor.

Dr BROAD - That is where the money came from.

Ms O'CONNOR - It is the TFA story and the minister should have the courage to confess.

Dr BROAD - It is the forest agreement money that funded it. We heard that Majestic has suspended its operations since October. What has STT been doing with residue for the last month or so?

Ms COURTNEY - I will have to go to STT in terms of their response.

Mr WHITELEY - In terms of the residue, if they are not generating residue then we have simply sold them the right to that material.

Dr BROAD - In the absence of Majestic Timber then, what is your short-term solution to southern residue issues?

UNCORRECTED PROOF ISSUE

Mr WHITELEY - If they are not operating they are not generating, so there are other operators. They are not the only operator. We have three contracts let in the south for southern residue. It is coming out of the EOI process, one with Les Walkden - you might recall this. Another one with a group called STFR that is backed by Phil Voss and his contract operations, and the last one was Majestic. The volume was split under the EOI process into three proponents that were put forward that the board accepted that we could write contracts with. They are continuing to operate.

The importance for STT is not so much the residues but actually the supply to our customers at sawmills in the south and Ta Ann in the south. To the extent there is disruption there we are concerned about that, but our particular concern is if that continues for a long period it clearly would lead to issues with supply to our core processing customers in the south. That is our principal concern. At present there are sufficient stocks and those sorts of things for the period at least until the end of this year.

Dr BROAD - What is your contingency then?

Mr WHITELEY - We need to simply understand what the alternative is. We have sufficient leeway in the short term from our commitments to supply our customers. We have discussed that with them, so we have reassured them that we will continue to make wood available to them. Clearly, should Majestic not be able to resolve their situation soon, that would be of concern and we would need to consider some other action.

Dr BROAD - Is there a point in time, minister, when it all comes to a head? Majestic Timber has until a date to let STT know what is happening? Is there a period? Is it by the end of the year?

Ms COURTNEY - My understanding is - and I will get the CEO to elaborate further - there are commercial agreements between Majestic and STT, and so the CEO can talk about those. With regards to a Government perspective, yes, obviously we are aware of the concerns with shipping and the suspension of those operations and as a responsive Government we will work with stakeholders to work out a pathway forward.

Dr BROAD - When does it fall over? When will the contract be null and void if they do not start operating again?

Mr WHITELEY - Setting aside Majestic, our concern is supplying to our sawmills and peeler mills. If we believed there was a risk that Majestic were not going to be able to service that part of the commitment we would need to make alternate arrangements.

Dr BROAD - When does that happen?

Mr WHITELEY - We have only just been notified this week so it is clearly one of those things. In terms of a normal business arrangement, we need to give them time; we need to talk to them and understand what progress they are making to find an alternative route to market.

Dr BROAD - Is there a clause in the contract that requires them to perform? Is there a clause there that will trigger -

Mr WHITELEY - As I say, it is a matter that only happened a couple of days ago.

UNCORRECTED PROOF ISSUE

Dr BROAD - I am just trying to get an idea of what sort of power STT has to withdraw from the agreement or compel Majestic to perform.

Mr WHITELEY - We will take legal advice but our interest is to make sure, particularly going into the first part of the new year, that we have either Majestic continuing to operate as we would expect or we have alternative arrangements in place.

Dr BROAD - What are the alternative arrangements?

Mr WHITELEY - We would need to engage some other different harvesters and transport. At the moment it is based on the sale. Our business is a mixture of us directly engaging some transport contractors around the state. In this case, because of the southern EOI, there is a different model there. People were able to purchase wood and then bring their own harvester and transport to that. In other words, we are at arm's length from that harvesting and transport capacity.

Dr BROAD - So STT, in the interim, would have to go back and start harvesting the timber yourselves?

Mr WHITELEY - Rather than any particular business, if for whatever reason we were not satisfied that our customers could be supplied, we would need to step in in some way and make sure that our commitment to our domestic customers was met.

Dr BROAD - You'd have to go back and engage contractors and go through quite a process?

Mr WHITELEY - I would expect something like that. We would talk to our other contractors and they may increase their capacity. There is a range of things there, so I would not rule anything in or out. In the end, the focus we have is to make sure there is no disruption to our ability to meet our customers' requirements.

Ms O'CONNOR - Minister, in one of your earlier answers you described the 356 000 hectares of high-conservation-value forests as a 'wood bank'. I do not know if you have seen it, but this is the DPIPWE reserve estate layer that confirms the 356 000 hectares is in fact not a wood bank but part of the reserve estate. Do you agree that it is part of the reserve estate?

Ms COURTNEY - Are you referring to the estate that is the future potential production forest land?

Ms O'CONNOR - I am not sure if anyone in DPIPWE has shown you this document, but this is the Tasmanian reserve estate area as at 30 June 2017. In the public land reserves, under informal reserve, it describes future potential production forest, 392 000 hectares. It cannot be both. It cannot be a wood bank and an informal reserve.

Ms COURTNEY - I do not have the document you are referring to.

Ms O'CONNOR - Perhaps you should ask the secretary of the department for a copy.

Ms COURTNEY - Perhaps I won't, Ms O'Connor, because as we have been through, there are suitable delegations in place.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - The point of the question here is that those forests are described by DPIPWE as part of the reserve estate. Maybe Mr Whiteley wants to answer this question because it goes to the impact of reversing the tenure of future potential production forests, as is the Government's policy, on STT's bid for FSC certification. Last year the STT HCV Assessment and Management Plan, a foundation document that underpins management of conservation values with swift parrot habitat, says on page 8 -

If any significant change was to occur in the management of land outside of the PTPZ land, the relevant elements of this plan will be reviewed and revised as necessary.

Since this HCV assessment was published, the Hodgman Government has enabled logging in reserved old-growth rainforests as part of its special species management plan and reversed the informal reserve status of the FPPF land. This to my mind is a significant change to the management of land outside the permanent timber production zone land. They were protected and now they are not. Through the minister, can Mr Whiteley explain exactly what 'reviewing and revising' means in this context, what is the position of the Government to log current reserves and what that means for the FSC bid?

Ms COURTNEY - With regard to the FSC bid, we have said previously that the Government is very supportive of what STT is currently doing.

With regard to potential conversions of FPPF land post-2020, as you know, there is a number of mechanisms that need to be considered before even a decision by the minister responsible for Crown Lands because the decision rests under them. There are size, location, valuation and conservation values; the land subject to the conversion request; a forest resource assessment; a socioeconomic impact assessment; a market demand assessment; and implications of the proposed conversion for STT forest management certification. There are a number of things that would need to be considered should this happen in the future and there is a clear process, including through the minister responsible for Crown Lands and indeed a disallowable instrument through the parliament.

Ms O'CONNOR - Minister, perhaps you could ask Mr Whiteley to go into some detail here and explain what 'reviewing and revising' means given that there has been a change in policy which almost certainly will have an impact on the FSC bid.

Ms COURTNEY - You said a change in policy. Can I just clarify what you are referring to?

Ms O'CONNOR - The change in policy is that when the journey towards Forest Stewardship Council certification started it was government policy and the policy of the parliament that that 356 000 hectares be protected. STT - or FT, as it was then - in its HCV assessment and management plan said if any significant change was to occur to the management of land outside the PTPZ land the relevant elements of this plan would be reviewed and revised as necessary. The question relates to the capacity of STT to secure FSC certification, and my question to Mr Whiteley, if possible, is can you explain exactly what 'reviewing and revising' means in the context of the change of government policy and FT's FSC ambition?

Mr WHITELEY - Those words are there because we don't speculate on what may happen. It is simply acknowledging that there may be some changes.

Ms O'CONNOR - There have been.

Mr WHITELEY - Well, there may be some changes. We still manage PTPZ land so that is really what we are focused on. In doing the evaluation you are correct, there has been an assessment of reservation status and it reflected the current status at the time but acknowledged that should that change we would essentially have to reanalyse.

Ms O'CONNOR - Has there been any re-analysis done by STT as a result of the Government's policy?

Mr WHITELEY - No.

Ms O'CONNOR - According to STT those 392 000 hectares of future potential production forest remain in formal reserve.

Mr WHITELEY - The assessment has been made with that status. That was the status at the time the assessment was made, however we have acknowledged that may change and should that happen we are not going to do a sensitivity analysis, we are simply going to acknowledge that we would need to make that change in order to be compliant with FSC certification requirements and should there be some changes we acknowledge that a re-evaluation would need to take place.

Ms O'CONNOR - Just to confirm, if from 1 July 2020, and given all the processes that the minister has talked about, logging begins in any part of that 390 000 hectares, that will have a material impact on FSC certification opportunities.

Mr WHITELEY - We will have to reassess, there is no question. For the HCV assessment we have assessed the seven criteria that need to be assessed based on the current status and have simply acknowledged that should that change we would need to undertake a reassessment.

Ms O'CONNOR - But in terms of STT's policy and approach, you don't regard that area of forest as a wood bank, because in your formal documentation it is acknowledged as informal reserves.

Mr WHITELEY - In terms of the evaluation we've undertaken we've received advice on the status of it at the time we did that evaluation.

Ms O'CONNOR - And the advice was from DPIPWE?

Mr WHITELEY - I'm assuming that is the case. It's really the current status. We undertook the evaluation at a point in time and then simply acknowledged that it may change. We're not seeking to speculate on the degree to which it may change.

CHAIR - As it is now 3.30 we will have a quick break for 5 or 6 minutes.

Short suspension.

CHAIR - Welcome back. The call is back to Dr Broad.

Dr BROAD - By way of clarification about Majestic Timbers. Where are deliveries at in terms of percentage of quota provided to date? Is it on track or is it behind in the south?

UNCORRECTED PROOF ISSUE

Ms COURTNEY - I will defer to the CEO to talk about specific contracts. I note that many aspects of this are commercial-in-confidence.

Dr BROAD - If, for example, the deliveries are behind, then the trigger point for action is going to be shorter. Whereas if things are tracking quite well, it might be a bit further down the track. If you could give us an indication of where things are at and how they are tracking against your contracted volumes.

Mr WHITELEY - This is for progress for the year?

Dr BROAD - No. In particular in the south of the state.

Mr WHITELEY - In terms of our supply to our domestic customers?

Dr BROAD - Yes.

Mr WHITELEY - That is on track. We are running pro rata.

Dr BROAD - Do you have any idea when the Hermal Group mill will be up and running?

Ms COURTNEY - I will have to seek some advice on the Hermal mill.

Mr HIDDING - That is probably a forest policy question.

Ms COURTNEY - It is outside STT but I am happy to seek a response. My recollection is, and I stand to be corrected, that a process is underway on a range of things they are doing there at the moment to work out the viability of the project. With regard to further aspects, I would have to seek advice and get back to you.

Dr BROAD - There was a media event earlier in the year on 30 January. The minister stated that it was expected that the mill would be starting by the end of the year, which is now. We have not seen anything.

CHAIR - I remind you Dr Broad that we are here to examine STT. You have opportunities within parliament or within Estimates to talk about general forest policy. We have the opportunity today to examine Sustainable Timber Tasmania. That is where we should be focused.

Ms COURTNEY - As I said, I will have to seek further advice.

Dr BROAD - There have been no discussions about the Hermal Group accessing STT timber?

Ms COURTNEY - With regard to any discussions between Hermal and STT, that is a matter for STT and Hermal. If STT has a comment, I will leave it to them.

Ms O'CONNOR - Then it means it is not just a question of forest policy.

Ms COURTNEY - I do not know what the answer is, Ms O'Connor.

Mr WHITELEY - We have been observing but currently we have no relationship with Hermal.

Dr BROAD - Minister, is it a concern that the piece of land discussed in May 2018 as being the site earmarked for a mill site, which would have a big impact on all players in timber processing in Tasmania, still has not settled. We have not seen a DA or anything for the Hermal mill.

Ms COURTNEY - Dr Broad, as stated by the CEO, there is no relationship between STT and Hermal so it is outside the scope of the discussion. Today is about Sustainable Timber Tasmania.

Dr BROAD - So you do not have any concerns?

Ms COURTNEY - As I said Dr Broad, it has been outlined by the CEO that there is not any contracted relationship there. Therefore, it is outside the scope of STT and estimates for the day.

Dr BROAD - What about Patriarch and Sons? Have there been any approaches about the feedstock for that project?

Ms COURTNEY - In regard to any conversations between a private company and STT, it is a matter for STT. I will pass to the CEO to make any comment.

Mr WHITELEY - Yes, we have been approached by Patriarch. At the moment, it is preliminary. This is very recent. We have been working with them on looking at some of the logs that are already going into the chip mill. They are measuring them up. As indicated, we are assisting them with some -

Ms O'CONNOR - Here are some of Patriarch's logging operations in Borneo, in case you want to see them, Mr Whiteley.

Mr WHITELEY - This is Tasmania. Our relationship with them is that they have approached us; they have been interested in procuring wood from the current wood stream that does not involve any further harvesting. They have a view that they can recover value from some of the logs. We understand that they are looking to recover short lengths. We have assisted them in pulling apart loads of logs, getting out tape measures and gathering some data about what potential there might be to recover some extra value. We are supportive of value-adding in Tasmania. It is very preliminary from our point of view. We are assisting them with access to some logs to make an assessment of them.

Dr BROAD - Do those logs come from another provider or do they come direct from STT?

Mr WHITELEY - There has been no discussion about that at this stage. From our point of view, it is simply proof of concept. They have come with a business idea. We have had no further discussion other than been willing for them to test their concept before we go any further with any other commercial options.

Dr BROAD - Through you, minister, have there been discussions the catchment area where timber would come from?

Mr WHITELEY - No.

Ms WHITE - If it is to come from the existing allocation, how would you provide that resource, given you already have contracts in place? Is this coming from pulp logs?

Mr WHITELEY - These are pulp logs. In terms of our log grades, we recognise there is already a domestic log that we segregate for Ta Ann. It is logs beneath that quality. Logs that currently go into the residue stream from public land are going out through the woodchip stream. There may be opportunities to segregate some out for log export because of the low quality. Because we are looking to push down our log grades for domestic processing, we have been focused on trying to add value within Tasmania, rather than anything else and export the logs that are not suitable for processing here.

They believe they might be able to get some short sections -

Ms O'CONNOR - For veneers.

Mr WHITELEY - For peeling. These are looking at quite short lengths. For things they cannot handle, they need to figure out a way of having longer logs delivered to them and then merchandise out some shorter lengths. We engage with them as forest managers in proof of concept.

Ms WHITE - What volumes have they indicated? Even though it is preliminary, they must be talking to you about quantities.

Mr WHITELEY - I think they have a view of what they would like to do, but we have made no commitment to them other than we want to be data driven. We would like to get some evidence of what the potential may be. Then we can discuss what role, if any, we might play with them.

Dr BROAD - Prior to the name change, Forestry Tasmania provided advice to government that 25 per cent of the permanent timber production zone was uncommercial to harvest. Does this remain the view of the board?

Mr de FÉGELY - That advice was a moment in time. It was our best modelling, based on the cost and revenues we had at that time. Now revenues and the costs of the business have both changed to a degree. We believe we can get up to the levels that we need to supply the volumes the industry is looking for at the moment. It is obviously a challenge.

It was never a matter of shortage of wood; it was a matter of what it was going to cost to collect that wood. As the market is moving in our favour, that allows us to go further into some of those coupes we thought previously were non-commercial and now would come in as commercial coupes.

Dr BROAD - Does that mean the requirement for the current plans from April 2020 to open up future potential production forests has reduced and you won't need to go into those if you can get greater recover from the existing ones?

Mr de FEGELY - We are really concentrating on the here and now at the moment, Dr Broad. The board has not considered FPPF land beyond what came through the previous parliament. It is obviously something we need to think about because 2020 is only two years away and that is not long in forestry terms, as you would know. It is something we will turn our mind to in the new year, but at this stage the board has not taken any view on that.

Ms O'CONNOR - Minister, as you would be aware, because we have asked you a question about this in parliament, Patriarch and Sons is a company newly formed in May this year and two

of its three directors are directly connected to a company called Shin Yang Group, which holds more than a million hectares of timber concessions in Sarawak. They are engaged in logging, timber processing and pulp and oil palm plantations. They are logging in rainforests in the heart of Borneo in an area that was set aside for a national park and is regarded as an international biodiversity hotspot. They have also been investigated by the Human Rights Commission of Malaysia in relation to their treatment of indigenous people. Are you comfortable with a company that has such an appalling environmental and human rights record?

Mr HIDDING - This is alleged.

Ms O'CONNOR - It is not alleged, Mr Hidding. It is easy for you to say that because you don't do your homework on these issues because you have a cognitive bias against getting the evidence.

Mr HIDDING - You green [inaudible]

Ms O'CONNOR - No, we go and get ASIC searches, we engage with stakeholders -

CHAIR - Order. Ms O'Connor, can you complete your question to the minister, please?

Ms O'CONNOR - Sure, if you can ask Mr Hidding not to interject on me. Thank you.

Minister, do you have any concerns at all about inviting into Tasmania - in fact, welcoming with open arms - a company which is regarded by the Malaysian human rights body as well as not-for-profit environmental organisations all over the world as an environmental and human rights vandal of the highest order?

Ms COURTNEY - Thank you for the question, Ms O'Connor. Let me start by saying that I am confident about the standards that we have for managing our forests in Tasmania and the environmental standards we expect businesses that operate here to uphold. With regard to -

Ms O'CONNOR - You haven't got FSC certification yet so you can talk all you like about environmental standards -

CHAIR - You were talking about interjecting, Ms O'Connor.

Ms COURTNEY - I will finish my answer with regard to the company you were talking about. There are some preliminary discussions between STT and there is not, as far as I understand, any formalised relationship with STT. While this is outside the scope of the Estimates for today, I think we can broadly say that as a government we are supportive of people investing and very supportive of downstream processing. This is one of the important ways for an industry to both create value for our forest products as well as help create jobs and particularly, as was outlined by the CEO, drive some really innovative outcomes.

With this company, as with other companies, I wait to see what happens in the future but, as I said, the Government is broadly supportive of companies that want to invest in Tasmania, create jobs and downstream processing. There is an expectation by government that they will always comply with relevant standards within Australia, whether environmental, social or employment, and we have very high forest management standards in Tasmania which we are very proud of.

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - Except you cannot get FSC certification. Mr Whiteley, perhaps you could answer this question, with the minister's indulgence. In relation to the Patriarch development proposed for Bell Bay, when did STT begin talks with the proponents about such a development, which proponents or individuals did STT talk with and where, and was it before Patriarch was established in May this year?

Mr WHITELEY - I am not sure about precise time lines, but in general terms over the last few months we have been approached by local representatives who have been tasked with simply the wood procurement parts and have not been involved in the commercial side of it. They have engaged a local representative and we have been approached by that representative.

Ms O'CONNOR - I would like to put that question on notice if possible because it relates to when the first conversation happened and with whom. Was it most certainly after May when Patriarch formed, or were there discussions with representatives of Shin Yang before May this year?

Ms COURTNEY - Mrs O'Connor, I am not prepared to commit to take on notice questions about what may be commercial discussions between STT.

Ms O'CONNOR - It is actually up to the committee, minister, whether questions are put on notice. You as minister do not get to determine that.

Mr HIDDING - She can advise the committee -

Ms O'CONNOR - She can advise the committee but it's actually not her call.

Mr HIDDING - whether she is able to provide commercial-in-confidence material.

Ms COURTNEY - I know that is a matter for the CEO to answer, but I am making it clear that questions can only be put on notice if the person answering the question has the ability to answer that in the future and accept that.

Ms O'CONNOR - Are you going to allow Mr Whiteley to answer whether the first approaches in relation to the Bell Bay proposal were before or after May this year when Patriarch was formed?

Ms COURTNEY - I am happy to ask the CEO to provide an answer.

Mr WHITELEY - I do not have that specific information.

Ms O'CONNOR - Can you bring it back to the committee, Mr Whiteley? Being able to say whether you met with an entity or representative of that entity before or after a certain date should not be commercial-in-confidence.

Mr WHITELEY - No, certainly I can confirm the date.

Ms O'CONNOR - Can I clarify if STT has been approached by representatives of Shin Yang?

Mr WHITELEY - We have spoken to a representative of Shin Yang, yes.

Ms O'CONNOR - That is right, so the conversations about the Bell Bay proposal possibly happened before May when Patriarch and Sons was formed or registered with ASIC?

UNCORRECTED PROOF ISSUE

Mr WHITELEY - It is the date I am not sure of. I do not have that information in front of me and do not have a recollection of that.

Ms O'CONNOR - It is possible, given that we are in December and Shin Yang was formed or registered with ASIC in May this year, that your assessment of those conversations probably preceded the few months you talked about earlier?

Mr WHITELEY - We have been dealing with them in relatively recent times but in terms of a precise answer I don't have that information to hand.

Ms O'CONNOR - When you talk about dealing with them, Mr Whiteley, are you talking about dealing with Shin Yang initially and then with Patriarch and Sons once they were formed?

Mr WHITELEY - In terms of the entity we were dealing with, it was only in more recent times that we were dealing with Patriarch, if you like.

Ms O'CONNOR - But you confirmed earlier that you have approached by Shin Yang representatives.

Mr WHITELEY - We were approached by Shin Yang, but I don't know the relationship between when Patriarch was formed and somebody who was representing Shin Yang, and I do not know those dates.

Ms O'CONNOR - Are you able to tell the committee whether the Office of the Coordinator-General had any role in connecting Shin Yang with STT?

Mr WHITELEY - I don't believe so. I'm not aware of that being the case.

Mr HIDDING - For the record, Shin Yang holds FSC certification in Tasmania and STT doesn't. They might have been providing advice as to how to get there.

Ms O'CONNOR - You want to have a look at what Shin Yang has done -

Dr BROAD - Minister, how much has STT spent pursuing FSC certification to date?

CHAIR - I would not mind Dr Broad re-asking that because there was another conversation going on and I did not hear it.

Dr BROAD - The question was how much has STT spent pursuing FSC certification to date?

Ms WEEDING - Forestry Tasmania at the time received funding of \$1.2 million towards the cost of achieving FSC certification in 2013-14, and in 2014-15 we received \$300 000 of funding. Otherwise the cost has been met internally within STT. In terms of our FSC certification process, a lot of the work we're doing are things we would need to do under our forest management system anyway. The work towards managing the swift parrot and trying to resolve the issues around habitat management and management of the species and the landscape scale, while it assists in meeting FSC requirements, is not only for that purpose.

UNCORRECTED PROOF ISSUE

As we have said, the Government and STT are very supportive of the FSC certification process and are 100 per cent behind it, but if we were to walk away from FSC tomorrow we would still need to manage those issues. They are things that are integrated within our forest management system and probably very difficult to pick out in terms of an allocation or a cost for the business in itself.

Dr BROAD - Just going back to a previous question, Mr de Fegely stated that in terms of the question of what proportion or what percentage of the Permanent Timber Production Zone was uncommercial to harvest, it is actually less now than the 25 per cent. What sort of percentage would you estimate now in the Permanent Timber Production Zone is uncommercial to harvest? Can you put a rough -

Mr de FEGELY - No, I couldn't, because I just know that the dynamics have changed, Dr Broad, which they do almost on a daily basis, because of the differences in harvesting and contracting costs. As I mentioned to you, that 96 was a point in time. Then we were trying to develop a picture of what we knew at that time. With the change and the fall in the Australian dollar, which has been significant, that makes a big difference to our export operations, particularly our residues in the north of the state. The increase in export prices - so we have a double benefit there - that changes the whole economics of harvesting in different blocks.

I just wanted to stress that the important thing was that it wasn't an issue about volume; it was about economic access. That modelling was based around economic access based on the economic drivers at that time.

Dr BROAD - Will gaining FSC certification place further restrictions on harvesting schedules and volumes?

Ms COURTNEY - That's more operational so I will have to ask the CEO or perhaps Suzette to answer that.

Ms WEEDING - The process of meeting FSC requirements - as I said, there is a whole range of things you can specifically attribute to an FSC certification process. These include modification of management system - it's managing our processes and things like our change in management practices around coupes containing old growth. Those things you could potentially attribute to an FSC certification process. As I mentioned a minute ago, the work we're doing towards the swift parrot, which is a considerable impact on operations and the industry, is something we would need to do irrespective of the FSC certification process.

As a responsible forest manager, it is a process we would need to go through anyway. You couldn't blatantly say there is no impact from FSC certification, but it is well integrated in terms of what we would do as a responsible forest manager and in which ways.

Dr BROAD - When does the cable harvesting subsidy run out? The loss of the cable harvesting subsidy, what sort of impact would that have on the ability of STT to meet its volume requirements?

Mr WHITELEY - I think it was discontinued in the budget before last. The last two budgets have discontinued that payment. In response to that we've discontinued two of the cable harvesting contracts.

Dr BROAD - How many are remaining?

Mr WHITELEY - We had two before the TFA and the TFA assisted in the funding of two. Coming back to your previous question, most cable harvesting is not commercial. It has additional very high costs. There were funds available to subsidise it. That at the time was partly what was picked up in the 25 per cent. A range of factors lead to whether our coupes are commercial or not.

Having that subsidy for a period allowed us to harvest a proportion of the valuable, but more expensive, areas. That was certainly beneficial to the wood supply. At the moment we've just gone back to the previous state, if you like, of harvesting using a two-cable machine, rather than the four.

Dr BROAD - What is FSC's position on cable harvesting? If we get FSC certification, would that eliminate cable harvesting?

Ms WEEDING - The quick answer is no. FSC certification certifies a forest management system and approaches to harvesting and managing the forest in its entirety. It does not pick out issues around selective harvesting versus clear-fell harvesting versus cable harvesting. At an international level, in the order of 60-odd to 70 per cent of FSC-certified forests are native and a considerable portion of those are harvested by clear-felling. So, certainly at an international level the ability to certify forests that are clear-fell harvested is there. It is done in Canada and it is done in the US. There are no constraints per se on clear-fell harvesting or on harvesting using cable from the FSC certification system.

Ms COURTNEY - Chair, before the next question, could I just offer some more advice with regard to the question Dr Broad asked about Hermal Group? I sought some further advice and the advice I have received is that the Hampshire project is progressing. Offsite production trials have already commenced and applications for environmental and Burnie Council approvals are expected to be lodged in the early new year.

Dr BROAD - In regard to that then the property has not settled?

Ms COURTNEY - It is outside the scope of STT today, but I committed to be able to come back to you with further advice, and that is the advice I have received.

Dr BROAD - Just to follow up on the previous line of questioning, minister, do you remain confident you can achieve FSC certification and, if so, are you able to advise whether achieving that standard will have any impact on STT's capacity to meet timber supply requirements?

Ms COURTNEY - As we have talked about previously, the Government is very supportive of what STT is doing towards FSC certification. With regard to the management of the forests and alignment with that, that is more of an operational matter for STT to be able to manage.

Dr BROAD - There are operational considerations. For example, what is STT doing to reduce the use of alpha-cypermethrin and will this impact FSC?

Ms WEEDING - Alpha-cypermethrin is considered a highly hazardous chemical under the FSC system along with a range of other chemicals and under that system there is a requirement to seek a derogation for use of that chemical.

There are derogations in place at an Australian level and largely plantation growers that have FSC certification are covered by that derogation. That derogation requires a commitment to work

towards phasing out that chemical and that is something going on at an industry level and looking at what alternatives there are to use of that chemical. At the moment it is permissible under the FSC system because this derogation process is in place.

In terms of our chemical use, we have defined processes we go through in order to apply chemicals. We undertake monitoring and evaluation, and it is essentially a last resort. It is quite an expensive process to apply chemicals and it is largely in relation to controlling insect populations in eucalypt plantations.

The age class of our eucalypt plantations at the moment essentially reduces the need to use those chemicals and in a lot of cases the natural predators kick in and take over that role.

Our chemical use has reduced in the last few years and certainly we are happy to maintain that trend as much as we possibly can so long as we maintain the viability of the plantations and the resource that manage.

Ms O'CONNOR - Minister, I am interested in further exploring the line of questioning about when representatives of the Shin Yang companies, which have done so much damage to the environment in Sarawak and to indigenous communities, first approached STT with, I think Mr Whiteley described it as, a concept.

Are you able to articulate what that concept was and what timber it involved and from where?

Ms COURTNEY - I will have to ask STT to answer that question.

Mr WHITELEY - My recollection of the approach was simply that the group was seeking to look at the north-east of the state so they had a review of the location. They came to us and said that was where they were interested.

They asked us whether potentially we had any wood available to them so we described the other range of current activities. We indicated to them that we would not be undertaking any further harvesting but there may be an opportunity to identify wood that they could recover from what we were already harvesting.

Ms O'CONNOR - The concept that the representatives from Shin Yang put was confined at that time to the north-east forests. Would they include forests that were future potential production forests, like the Blue Tier forests?

Mr WHITELEY - I understood at the time that they were coming from interstate. They did not have a very good knowledge of Tasmania at that time. They understood that there may be potential to operate in the north-east and my perception was that was simply because Ta Ann was operating in other parts of the state, they supposed there might be an opportunity there.

Ms O'CONNOR - Did they express an interest to STT in accessing and logging native forests, not just the residues?

Mr WHITELEY - No, just in procuring wood, so I think they had no interest at all. I did not hear any interest or suggestion of doing anything other than processing wood by rotary-peeling short billets. In the conversations I had, they described the concept, which is peeling wood, both

UNCORRECTED PROOF ISSUE

from plantation and natural forests, and asked us to describe what resources we had. I understood at the time they were also talking to a number of private grower interests as well.

Ms O'CONNOR - Did you or anyone at STT advise Shin Yang representatives that they should establish a company and register it through ASIC, or is that something they did of their own volition?

Mr WHITELEY - No, I have no knowledge of the relationship between those things. The only engagement they have had with me is simply around understanding what resources there may potentially be available from public forests.

Ms O'CONNOR - Isn't it a very clear understanding of STT that if you are dealing with fundamentally the same entity, a company from Sarawak that came and had a conversation with STT about an operation in Tasmania that has evolved into Patriarch and Sons, in STT you are dealing with the same group of companies.

Mr WHITELEY - It really was the people we were speaking to. Since that time we have obviously recognised that they have chosen to register particular companies. In terms of the discussion we have had with them, it has been about the wood, not about commercial matters or corporate structures.

Ms O'CONNOR - Minister, we now know that part of the reason STT is able to state that its books are balanced is because superannuation liability was transferred from the Public Account to the Consolidated Fund and therefore the liability is carried by taxpayers. That is a subsidy, isn't it?

Ms COURTNEY - Ms O'Connor, I thought you would welcome the fact that STT has returned to profitability. It is exciting. They have had to go through a huge transition and obviously that was on the back of the changes brought in by the Labor-Greens government when they were in power. I am really pleased that STT has been able to work proactively with the Government to be able to get to a pragmatic solution where we have the commercial arm of it and we also have the arm that looks after management of forests as well as management of access for other people and organisations. I think we should welcome the fact that STT is in the place it is at the moment.

Ms O'CONNOR - That is not the question, minister. The question was: if STT, as a government business enterprise, has a debt - that is the superannuation liability - and has been allowed to transfer that debt to the Consolidated Fund - unlike Housing Tasmania, for example, which carries a massive burden of the Commonwealth-State Housing debt and has been asking to have that debt transferred to Consolidated Fund for god knows how long - that is a subsidy, isn't it? There is a transfer of debt from a government business to the taxpayer, therefore the superannuation liability transfer is a subsidy? Yes or no?

Ms COURTNEY - The fact that we have seen a large change in the entire business structure -

Ms O'CONNOR - Why can't you just say yes? How hard is it just to say yes? Why is it not a subsidy?

Ms COURTNEY - There is a fundamental change in the business tranche of STT. There has been a legacy of a demise in the industry led by the Labor-Greens government so -

Ms O'CONNOR - That industry that came to the government on its knees asking for help?

UNCORRECTED PROOF ISSUE

Ms COURTNEY - Ms O'Connor, I know you have been one of the people saying that STT should not have ongoing subsidies into the future, but it is really exciting that STT is in a position where we have seen a return to profitability.

Ms O'CONNOR - No, it was your Government that promised not to deliver ongoing subsidies, which it is.

CHAIR - Order.

Ms COURTNEY - We are seeing management that has worked proactively with stakeholders to be able to get to where they are now.

Ms O'CONNOR - Transferring the liability is a subsidy. Are you prepared to say, 'No, it is not'?

Ms COURTNEY - I reject the premise of that question. We have seen a business that has been completely restructured. As you would know, Ms O'Connor, with GBEs there are always changes in capital circumstances for a range of reasons and the Government worked proactively with STT to be able to get into the position it is now where we have delivered a special dividend.

Ms O'CONNOR - It is a subsidy.

Ms COURTNEY - We have seen the first profit in a decade.

Ms O'CONNOR - I am concerned to make sure that we don't enter a post-truth era every time this minister fronts a committee hearing.

Mr HIDDING - Minister, the sale of the long-term forestry right to the hardwood pulp plantation was a major event in the state's history. Can you reassure Tasmanians that they received full value for what was really a significant public asset?

Ms COURTNEY - With regard to the sale and the value, it is probably best to ask Steve to answer that.

Mr WHITELEY - I guess in terms of the sale in 2016 a ministerial statement really kicked off the process. There has been some background around that. As previously mentioned, the sale constituted mainly the unpruned and unthinned, what we broadly call the pulpwood, plantations, while we retained the pruned estate which is required to support the legislated 137 high-quality sawlogs.

There are two parts. If the question is how did we know we received fair value, the first part relates to the way we undertook the sale process. As the Chair previously mentioned, the board conducted the sale process and in doing that made sure we got a team of expert advisers in. We had some guidance from Treasury around a probity plan and that was approved with the ministers and Treasury beforehand, so we had that framework. The team we put together included an external sale adviser and also a technical forestry expert along with legal and probity advice. Part of that was making sure we had the Government's arrangements in place.

UNCORRECTED PROOF ISSUE

In terms of the sequence of the process we went through, it was effectively a tender process. We promoted the sale in December 2016 so it went out very broadly through various networks by sending out a flyer to inform people that the sale was about to take place. Then we formally invited expressions of interest, which closed in January 2017. The next thing we did was provide an information memorandum and access to a data room for people who put forward sufficient evidence that they were capable of being registered bidders. We then accepted indicative bids in March. We gave them time to go through the data and then we selected a small group of stage 2 participants who put through what were attractive bids.

Through a selection process, final bids were formally received from a number of parties in June 2017. We then had a separate evaluation team independently evaluate those bids. I have run through again the process whereby effectively it went to the market. The evaluation team consisted of four members. Two of them were independent and included an independent chair. That evaluation team did not include any board members, but they provided advice to the board. Again, all the way through, based on Treasury's probity plan, we made sure that all the governance processes around an open market process were run through very diligently.

Throughout the sale process, the board required the sale be conducted with the strictest probity. It is a state asset and we need to make sure we were going to the markets and that we could be satisfied we were receiving the best value possible and all the Government's processes around that were very strongly administered.

The sale process was well subscribed. There were bids from a number of very qualified parties. Through the submission of final bids, maximising the potential for the best market price was what was sought to be discovered by the evaluation team. Going to market in that way was the place we satisfied ourselves that we were putting our best foot forward. We have a good, strong record in managing forests. There was good information available for much of that estate to help inform prospective bidders.

The second thing the board did independent of that was - so, go to the market, then get internal advice around evaluation. They sought, independent to the market process, valuation advice. They engaged its own plantation valuer who then provided an independent valuation to the board. Again, that was only known to the board. We ran these two processes to make sure when the board were required to receive a recommendation from the evaluation team, it had both its own advice as well as it could be satisfied a diligent market process had been conducted.

As it turned out, the sale price achieved was higher than the range advised to the board. The board was satisfied they were receiving good value. The Chair, retrospectively, commented on his view around those things after the fact. We were satisfied through the way the process was run that we achieved a strong market interest and a positive response in terms of the sale price offered.

Dr BROAD - What have been the FTE changes in the last 12 months? Are you employing another two FTEs?

Mr WHITELEY - I think we are a little lower, and Chris can check the numbers.

Mr BROOKWELL - Through to the end of the financial year we increased the head count from 147 to 149.

Dr BROAD - So two. What has been the turnover in the remaining FTEs in the last 12 months?

Mr BROOKWELL - In terms of the movements in that two, we had 14 departures and 16 recruitments.

Dr BROAD - Has there been turnover at the executive level?

Mr WHITELEY - No, there has not, as reported in the annual report.

Dr BROAD - In the annual report, I understand in 2017 there were 30 redundancies and there was one redundancy offered in the 2017-18, so 31 redundancies in the last two financial years.

Your wages and salaries bill went down by approximately \$500 000. That equates to about \$17 000 per FTE reduction,-Note B1F which is substantially less than the costs of keeping those 30 people. Does that mean your wages policy has seen an increase greater than 2 per cent in terms of salary increases?

Mr BROOKWELL - There is a footnote to the wages disclosure in the accounts - at Note B1F - the cash benefits we paid to staff actually reduced by \$4.4 million year on year from 2017 to 2018, which is a reduction of 26 per cent. The figures disclosed in the notes includes a non-cash expense related to the RBF movement. In terms of the redundancies you mentioned, we have seen that benefit come through a reduction in cash payments [inaudible].

Dr BROAD - Is STT also subject to a 2 per cent pay cap?

Ms COURTNEY - The Government has 6 per cent over three years wages policy.

Ms O'CONNOR - If it wasn't so sad, you would laugh.

Ms COURTNEY - As has been outlined by Chris, the total cost of salaries, including the first-year increases, allowances and benefits, have reduced by \$4.4 million to \$12.3 million in 2017-18, a 26 per cent decrease in comparison to previous years. It is also important to recognise, Chair, that significant productivity gains have been made within the company. I am also really pleased in light of all of this that the company has returned to profitability.

Dr BROAD - Just to reiterate: are STT staff subject to a 2 per cent pay cap?

Ms COURTNEY - With regards to wages policy, that is a matter for the board and the executive of the GBE to determine.

Ms WHITE - So they are not subject to the Government's 2 per cent wages cap?

Ms COURTNEY - Government businesses are mindful of the Government's business cap, the wages policy. They are expected to be cognisant of that. Individual agreements are negotiated within GBEs and at times these are negotiated around a range of factors, including productivity gains.

Ms WHITE - It is not part of your statement of ministerial expectations?

UNCORRECTED PROOF ISSUE

Ms COURTNEY - With regard to STT, they are expected to be cognisant of government wages policy, but individual enterprise arrangements are a matter for the business, noting that there are times when there are productivity gains and so that is a matter for STT.

Ms WHITE - So what did the board decide to do?

Ms COURTNEY - That is a matter for the board.

Mr WHITELEY - Just stepping through if you like, we are well aware of the Government's wages policy, which includes around total cost of salaries, so making sure that it covers all allowances and those sorts of things. We factor that in as required. We're aware of the 2 per cent reference, and so we note there is scope to consider productivity. That is just looking at the rate in the wages policy as provided to us.

Ms WHITE - It's been a plain 2 per cent cap for all public sector workers, so it is quite different the instructions you have been -

Mr WHITELEY - This is out of the budget papers, so I'm just referring. I have two sources, so this again out of the budget paper, which I can read if you like, but otherwise you can refer to that. Then as the minister mentioned, we received a letter from the shareholder ministers, which stated -

The Government remains committed to ensuring that negotiated wage outcomes are sustainable and affordable. In this regard all government business should be cognisant of the fact of the public sector 2 per cent wages policy.

So that is again the advice that we received. Our response to that -

Ms WHITE - Chair, Mr Whiteley was just responding to my question of what the board decided to do.

Mr WHITELEY - We went into an enterprise agreement process. Part of what we were looking to do as part of the restructure was to make sure that we took into account the productivity gains we were asking of our staff. To cut to the chase, in terms of EA we've got a three-year agreement. The structure of that agreement is 4 per cent in the first year, followed by 2 per cent, 2 per cent. We've made it very clear that 2 per cent was our reference, so that's the basis that went into our approach to the enterprise agreement.

Ms WHITE - Does that cover executive staff as well as all other staff?

Mr WHITELEY - They're not covered specifically by the enterprise agreement, but the board has a policy around consistency, so while there are other people who aren't covered by the enterprise agreement, the same basic principles apply to all employees.

Ms WHITE - A 4 per cent increase this financial year?

Mr WHITELEY - No, so in terms of the enterprise agreement that happened during that period, but in terms of the process -

CHAIR - I can't allow this to continue.

Ms COURTNEY - Can I just add to the answer, please, just from the CEO in regard to that. It is important to note that the total cost of salaries, allowances and other benefits has reduced by \$4.4 million to \$12.3 million, as the CEO has said, in line with what has been provided, the advice around the Government wages policy and a 26 per cent decrease in comparison to the previous year. There have also been, Chair, significant productivity gains made. Wood production per full-time equivalent doubled through the three years to 2018 and, as I mentioned earlier, this has [inaudible].

Mr WHITELEY - I can answer that question very quickly. The first year was that commencing 1 July 2017 so it rolls out for three years beyond that.

Ms O'CONNOR - Minister, in the 2016 ministerial statement on forestry, which led to the restructure of FT, it was indicated that the Government would be absorbing approximately \$5 million of FT's superannuation liability each year. At the time it was stated -

The mechanism by which this occurs and the likely impact on the state's balance sheet and operating statement are still to be determined.

We have not been able to find a reference to this in the annual report or the state Budget. Can you provide some details or point us to the relevant pages in the annual report or state Budget and provide an estimate of how long this will continue and the total cost to the state Budget?

Ms COURTNEY - With regard to the superannuation liabilities that have been transferred, that would be a matter for the Treasurer to be asked during normal budget Estimates.

Ms O'CONNOR - Neither you nor anyone who is here from STT can point to anything in the annual report that relates to that transfer of superannuation liability?

Mr BROOKWELL - The transfer was effected in the 2017-18 financial year. In the statements of changes in equity, you will see there is an equity contribution of \$113 million which relates to that transfer. That is in the financial year 2017-18.

Ms O'CONNOR - Just to be really clear, the \$113 million equity transfer is from who to who and over what period? Did it represent the entirety of the unfunded superannuation liability?

Mr BROOKWELL - There are two parts to that question: mechanism and how much. In terms of the mechanism, it was essentially legally gazetted through the GBEs, as I understand it, and the names of the relevant pensioners and former employees were gazetted and they were effectively legally transferred to the government fund. In terms of what that left us with, STT is left with sponsoring obligations for the members who were currently the employees of the organisation.

Ms O'CONNOR - What is that \$113 million? Was that equity transfer a transfer from the State to STT?

Mr BROOKWELL - STT essentially transferred the obligation of the \$113 million, which was the superannuation liability for pensioners and former staff. That liability was transferred through that legal process [? inaudible].

UNCORRECTED PROOF ISSUE

Ms O'CONNOR - The \$113 million subsidy. Minister, if STT no longer has many non-commercial road responsibilities, why is it still receiving the same amount in forestry community service obligation money which is earmarked for non-commercial operations?

Ms COURTNEY - That money is provided for a range of aspects in terms of the CSO. As I mentioned earlier, forestry roads are a large part of that. I am happy to ask Steve perhaps to talk a bit more about how that CSO is spent. There is a clear expectation from Government and we are confident around the money that is providing for the CSO that it is being spent appropriately. As we have seen in the STT restructure, there has been a clear delineation within the structure of the new organisation around the commercial activities and the provision of the service obligations that are contained in a direction issued by the shareholder ministers in July 2017. I mentioned forestry roads, but I am not sure whether Steve would like to -

Ms O'CONNOR - Could we get some clarity around the answer from someone who knows what they are saying on this issue.

Mr WHITELEY - This is around the road network?

Ms O'CONNOR - Yes, fewer non-commercial road responsibilities but your CSO is retained.

Mr WHITELEY - That is just a statement about current road networks. We currently hold 8720 kilometres of road on PTPZ land. We also use various other roads that run through our tenures, including DPIPWE's, so we are still obliged to maintain some of those roads.

Ms O'CONNOR - They are not managed by DPIPWE?

Mr WHITELEY - No, we have to bear the cost of some of those.

Ms O'CONNOR - Some of them?

Mr WHITELEY - The ones we use. When I say 'we', clearly it is not all the roads in the area it is the major transport routes that run through that land tenure. That was part of the separation of the land and the road network.

We have a very significant gravel road network and there are also some other sealed roads, like the Mersey Road and others that are legacy roads, but they are still managed under PTPZ land.

Ms O'CONNOR - I am trying to distinguish, Mr Whiteley, trying to discern, where the public funding falls and what it is allocated towards. The STT annual report indicates that government payments have increased from just under \$12 million in 2016-17 to \$16 million in 2017-18. Why have the payments from government increased despite the fact that financial liabilities such as roads primarily have been taken away from STT during the restructure? STT no longer has to manage 29 000 hectares of public plantation. Why has public funding to STT increased? What are the extra costs that STT has that this funding is apparently required for?

Mr WHITELEY - This is stepping back two years rather than one year.

Ms O'CONNOR - That is right.

UNCORRECTED PROOF ISSUE

Mr WHITELEY - This is the second year within which we are operating under that model. Part of the answer to that is the divisional structure was set up. Part of the restructure was to be very clear about the costs associated with wood production and separating those from holding the land and other assets. I can give you some examples if you like.

Ms O'CONNOR - Sure.

Mr WHITELEY - In terms of the way we run our business end, under the forest products business, if there are new roads to be built to access land for harvesting fully funded by our Forest Products Division -

Ms O'CONNOR - By the people of Tasmania.

Mr WHITELEY - By the customers of the wood. Indirectly, many Tasmanians purchase wood and they will indirectly contribute to that. Other than that, it is fully funded by our customers who buy wood. It is the cost of production that gets passed through to them. If we are building new roads for harvest, that is fully funded by our customers collectively. There is also a payment made internally for the use of some of the road network. While we have a network of, as I said, 8720 kilometres, not all of that is used for wood production purposes. Any of that which is used for wood production purposes, there is a road toll structure we have used for many years, and that is not a payment the state makes; it is a payment the customers of the wood make to effectively use that asset.

As an example of other roads that we spend money on, up at Liffey there is a section of road with a bridge that was washed out. We needed to link Liffey Falls back to the community because it was important for community access. It is on PTPZ land. It cost around \$100 000 for the bridge alone to be replaced. That is part of what the community pays for.

CHAIR - Even though the Chair should not interject on this, but as I am from that area, that road to the Liffey Falls was out of action for a number of months - very good job.

Mr WHITELEY - We have separated through our divisional structure. If you are buying wood and you pay for the use of the road, both building it and maintaining it, but there is a large asset out there that is used by the community - and it is state asset - and that part of the funds provided is used for a whole lot of other things, which I can go into if you like. The roads question was the one I think you were asking.

Ms O'CONNOR - The question is, Mr Whiteley, despite the fact STT has fewer roads to manage, it has a better capacity for cost recovery and it has 29 000 hectares of public plantation that it no longer has to manage, public funding to STT has increased by about \$4 million in one year. What is that about if the costs have gone down? We had a government commitment not to provide more subsidies to the GBE and yet government funding has increased even though STT costs have decreased.

Mr WHITELEY - I think part of it is a timing issue. There has been the two views over which these funds have been provided, but it really comes back to the minister's opening statements. A lot of work was done by Treasury over the long period, supported by Deloitte and other parties, and in the end the Government, as indicated by the minister, accepted it needed to pay more for community services for non-commercial contributions. It was underfunded is the answer.

UNCORRECTED PROOF ISSUE

Ms COURTNEY - Providing fair amount of funding for the community service obligation -

Ms O'CONNOR - Providing a subsidy for fewer community service responsibilities -

Ms COURTNEY - Providing a fair amount of funding for the community service obligation.

Mr WHITELEY - Through you, Chair, I have just been advised - there was a question you asked earlier around the timing and the answer to that is Wednesday, 8 August was the first meeting I had with the representative of Shin Yang.

Ms O'CONNOR - But the question was whether it was the first contact between Shin Yang and STT.

Mr WHITELEY - Again, as I said, I wasn't aware of anything else. As far as I was aware, that was my first contact.

Ms O'CONNOR - Thank you for that clarification.

Mr de FEGELY - I am not quite sure what the issue is around that time frame. From the board's perspective, it is very important that as a GBE we trade with the industry but also if somebody has new ideas and thoughts about wood processing and wood production that we think might be commercial and of interest to our business, our staff are asked to engage with them so we do not do due diligence on people before they come to the office. We do have an open door and I know, because of the demand in Asia, which I talked about earlier, there are a significant number of people walking around Australia at the moment looking for resource, looking for access to resource. The industry in Queensland - in particular, the sawmillers - is finding it difficult to compete with log exporters up there because a lot of the wood comes off private land. This is not uncommon - I know I have had a call in the recent weeks from a person from Vietnam; I do not know what his credentials are, but I am happy to talk to him if he has a new idea.

I will go back to a particular point. Very early in my career, I learned a very hard lesson. I had a contact from a person from Hong Kong - and I go back to the 1990s so it came on a fax machine - saying, 'Can you help me, I am looking at resources. I am going to build something.' I thought, 'I do not know anything about this person. I do not know where they are. I do not think he has got any credentials'. I ignored it. That person then built an MBF plant in the central highlands of Victoria. Now I do not turn anybody away until I have a really good look at what they are doing. That is just the same methodology I put to the staff at STT. Using the legal analogy, they are innocent until proven guilty. We are a government entity and we are expected to talk to people. I am struggling a little bit with what that question is about.

Dr BROAD - In July the minister's predecessor engaged Evan Rolley to identify strategic options for a southern residue solution and it was 'as a matter of priority'. Can you provide the committee with an update on where that process is at?

Ms COURTNEY - Thank you, Dr Broad. I think it is important when we are talking about the southern residue solution to reflect on the circumstances which caused this in the first place. As you know, it was the previous government - the Labor-Green government - that helped facilitate the demise of the Triabunna mill -

Members interjecting.

CHAIR - Order.

Ms COURTNEY - That is one of the challenges, and the Government had been working proactively with participants. We have seen a range of processes and as you stated, Mr Barnett made a statement earlier in the year. Mr Rolley was asked to investigate a broad range of options and we will assess that advice and act swiftly with that advice.

Dr BROAD - Do you have an expectation of when that advice will be provided to the board of STT or the Government?

Ms COURTNEY - I am not going to pre-empt the outcome of that at the moment.

Dr BROAD - Just timing.

Ms COURTNEY - I cannot pre-empt that either, I have to say. We are very cognisant of the timeliness of this; indeed, it is my immediate priority as the new minister, and I can assure you of that. I can assure participants in the industry that it is an immediate priority of mine to look at what solutions are potentially viable, to work with my colleagues and stakeholders, STT and any other participants in the industry to look at what we can do to provide sustainable outcomes. We recognise the need for it and we also recognise the fact that forestry has got a really strong future in Tasmania. We want to make sure as a government that we support that and that we are taking the right steps to facilitate investment into the future.

Dr BROAD - Minister, will the Hobart port remain open for forestry exports even with the development of Macquarie Point?

Ms COURTNEY - I am not going to pre-empt that. There are a range of things that will be considered in light of Mr Rolley's report. I am not going to pre-empt the outcome of that, but I can assure you and participants in the industry that is a priority for the Government and a priority for me as the minister.

Dr BROAD - Minister, has Reliance Forest Fibres finished harvesting of the plantations that it purchased from STT?

Ms COURTNEY - I will have to seek advice from the CEO.

Mr WHITELEY - Yes, they are well established. They have employed a local management team. They've engaged local contractors and have been producing wood. They may have started last year, but they have strengthened their position through this year and are growing stronger at this stage.

Dr BROAD - Given the absence of a southern export solution, how are they getting their product to market?

Mr WHITELEY - They are operating around the state. They have plantations in the north-west, north-east and south. In the south, they are operating in areas north of Hobart so they are looking to pick up wood in the southern region that is close to the mill they have purchased at Bell Bay. Part of it is tied around -

UNCORRECTED PROOF ISSUE

Dr BROAD - The place where they produce this?

Mr WHITELEY - Where they want to send it to as well so they clearly won't put that wood through their facility at Bell Bay.

Dr BROAD - So they haven't commenced harvesting south of Hobart? It is all north of Hobart?

Ms COURTNEY - It would be difficult to -

Mr WHITELEY - I know they are interested in doing that. I can't say, but I know they are interested in doing that.

Dr WOODRUFF - Minister, isn't it a fact that you abandoned a southern port solution because there is no southern port solution and instead you are looking at beefing up Brighton as a hub?

Ms COURTNEY - I have to say that it is very interesting that you would ask this, Dr Woodruff because of the role you played creating tensions in a region with regard to that proposed port, I thought it was terrible. Creating tensions between -

Dr WOODRUFF - You mean, transparency -

CHAIR -Order, Dr Woodruff.

Ms COURTNEY - As a government, we are very proud of both our forestry and our salmon industries. It was very unfortunate and it showed what the Greens will do to try to bring down industries. We saw the role the Greens played in that and we know they will use any mechanism to shut down forestry and shut down salmon.

As a government we will continue to support the forestry industry to look towards solutions. It is something the government is very focused on at the moment and as the new minister I am focused on. I am not going to pre-empt what that is going to be. That would be irresponsible, but I will hopefully have more to say about that in the coming time. It is something we are focused on.

As I say, the industry is in a really positive position at the moment. They have strong prices. We are seeing a lot of investment in downstream processing across the state. There is a lot of excitement around innovative products and I am excited about how we can partner and work with industry to find solutions.

Dr WOODRUFF - The Evan Rolley report was due in October or November. It has not appeared. Is it actually the fact that you have abandoned the southern port solution? The community in the south of Tasmania would like to know what your plans are.

Ms COURTNEY - Thank you. I know that you have abandoned the community in southern Tasmania with regard to the divisive politics you play. As a government, we are committed to taking action to support forestry as we do with all productive industries across Tasmania.

We are supportive of the jobs that are created. We saw just recently the Jacki Schirmer report showing 5800 jobs directly and indirectly being supported by the forestry industry.

Dr WOODRUFF - Will you be building a road between the Derwent Valley -

CHAIR - Order, Dr Woodruff.

Dr WOODRUFF - Just a straight answer -

Ms COURTNEY - With \$1.2 million to downstream processing -

Dr WOODRUFF - Just a straight answer, have they -

CHAIR - Order.

Ms COURTNEY - To be verballed like that by Dr Woodruff is interesting. I can guarantee this Government is committed to supporting industry. As I said, I am not going to pre-empt what the outcomes of the Rolley report are and what the Government's response is.

Dr WOODRUFF - It's late, so when is it going to be released?

Ms COURTNEY - I am not going to be given artificial deadlines by you, Dr Woodruff.

Dr WOODRUFF - It's your deadline.

CHAIR - Order, Dr Woodruff.

Dr BROAD - Minister, what is the regional dispersal of STT staff and how has this changed over the last couple of years?

Ms COURTNEY - Happy for that to be answered. We've got a breakdown of that. We'll track that down.

Dr BROAD - The other question is how many employees are trained in firefighting?

Mr BROOKWELL - We'll also track that down.

Dr BROAD - Do you want me to rack a third one up?

Mr BROOKWELL - If it's attributes of our staff, yeah.

Mr HIDDING - How about if I do the third one while they -

CHAIR - To Mr Hidding, we're in the last 10 minutes.

Mr HIDDING - The great news is the financial position of STT, but what is happened to the approved debt facility you had and the letter of comfort that was previously necessary? What has happened with that?

Ms COURTNEY - We have everyone looking through stationery at the moment.

Dr BROAD - Are you asking a question off the cuff here?

UNCORRECTED PROOF ISSUE

Ms COURTNEY - Thank you, Mr Hidding. My advice is the board reviewed the appropriateness of continuing to prepare the financial statements as an ongoing concern. The board resolved that this is appropriate. In doing that, the director's review considered the following points. At 30 June 2018 STT had net assets of \$52.087 million, including cash resources of \$45.359 million. Cash resources of \$45.359 million comprised cash at bank, \$2.454 million; cash available at call, \$4.401 million; and cash invested in marketable securities mature prior to 30 June 2019, \$38.5 million.

While STT does not have a history of profitable operations, it does have ready access to financial resources sufficient to meet the Treasurer's requirement for a dividend that we mentioned before - the \$15 million in the context of the restructured business.

The Auditor-General concludes in the Independent Auditor's Report on the appropriateness of the director's use of the going concern basis to accounting to prepare STT's financial statements on that basis, and the fact that it is a going concern.

It was also noted with regards to debt, STT paid \$11 million to TASCORP on 6 October 2017, and the borrowing facility with TASCORP of \$41 million was cancelled on that same day.

With regards to some of the other questions that were asked earlier -

Mr WHITELEY - Within our staff, we've set an internal target of 70 per cent of our staff being equipped, so that means more than 110 of our staff are ready to contribute to firefighting efforts. In fact, on the ground 105 of our staff were involved in bushfire response during the 2017-18 year. Not only are we training these people, but making sure -

Ms WHITE - You met your 70 per cent target?

Mr WHITELEY - We met our 70 per cent target, but rather than just meet it and say we've trained people, they are actually out there being deployed. That is also very important from an agenda point of view. Part of it is a range of things we are looking to do to encourage multiskilling throughout our entire workforce.

Dr BROAD - So regional dispersal?

Mr BROOKWELL - I can give you approximate figures if you like. At head office we have got 55 and 60.

Ms WHITE - That's from last year.

Mr BROOKWELL - This will be at the end of the financial year.

Ms WHITE - That's 2016-17.

Mr BROOKWELL - In the south, approximately 35. In the north-east we have approximately 35 and in the north-west approximately, 25.

Dr BROAD - What have been the changes in the south, the north-east and the north-west?

Mr BROOKWELL - I would probably need to take that on notice.

Dr BROAD - How many contractors do you engage?

CHAIR - That question wasn't put before.

Dr BROAD - It didn't get picked up.

Ms WHITE - I did ask it actually, Chair.

Ms COURTNEY - We spent \$48 million on Parks and haulage contractors.

Mr BROOKWELL - There are 28 harvesting contractors operating under 59 contracts.

Dr BROAD - How many - 49?

Mr BROOKWELL - Twenty-eight.

Dr BROAD - Minister, the previous minister was quite enthusiastic about the wood encouragement policy. What has happened?

Ms COURTNEY - As a government we are continuing with the policy programs that we have. As a government minister I continue to support a range of initiatives instigated by my colleague, the minister, Guy Barnett, and I look forward to continuing those into the future.

Dr BROAD - Was has actually happened?

Ms COURTNEY - I am not going to go into the details of the wood encouragement policy now. We are looking at STT's financial results.

Dr BROAD - Minister, is STT working with its customers to implement the wood encouragement policy?

Mr WHITELEY - We have been approached by some people interested in the UTAS northern development program. They are at the stage now where they are engaging with architects and they are putting samples in. Most recently one of our customers asked us for a particular line of logs to enable them to prepare the samples and do those things. It is indirect, but the other businesses are engaging with the architects on that particular program. From time to time they will come to us and ask for a particular type of log at a particular time to assist them with that. There have been other examples of specialist flooring programs and things like that.

Ms WHITE - Arguably the first instance of that would have happened anyway irrespective of the policy because they are seeking to procure that product to add to their project.

Mr WHITELEY - I cannot speak for all of them but I understand that it is making a difference. There has been a MOU with UTAS. There has been a couple of things that sort of fit under that banner, so I think it is important that we use Tasmanian timber locally where we can.

Dr BROAD - Is there any evidence that it is working?

UNCORRECTED PROOF ISSUE

Mr WHITELEY - I have got some evidence of that. The example of that is the northern UTAS one.

Dr WOODRUFF - I had a constituent contact my office trying to legally acquire wood for a wood collection. He would like to be able to pay the fee and he tries to get a permit, but he said it has been incredibly difficult to get a permit. It often takes more than four days. He wants to do the right thing. Can you tell me what the average waiting time is for STT providing people with a permit.

Ms COURTNEY - I can ask STT to talk about the actual process, but with regard to your constituent, if there is a particular constituent concern I am more than happy for you to write to me and I can refer it to STT if there is a particular constituent issue that has arisen. That is something I commit to do.

I am not sure whether we have average times, but we do have a process around providing that service. If there is -

Dr WOODRUFF - Through you, minister, if someone could answer that.

Mr WHITELEY - I am not sure what the product is, but if it is firewood, there is seasonal variation around availability so around the state we look to make firewood available when it is safe to collect. We encourage people to go and pick up wood from areas following the contractor vacating the harvest coupe and before we take the regeneration treatment. Over the summer period it is normally easier to access. I am not sure we have a metric there that is precise, but clearly we would like to reduce any waiting and make wood available to people as promptly as possible, noting that there will be some seasonal constraints.

Dr WOODRUFF - How many staff are allocated for a person to be in touch with about such a matter?

Mr WHITELEY - Within our Land Management Division we have various people who pick up stakeholders. We certainly have them within each region as well as centralised via email and by website contact.

Dr WOODRUFF - Through you, minister, illegal clearing is a serious problem in Tasmania. It has been recognised very seriously so clearly some efficiencies in STT in terms of enough staff responding to people so people can at least do it legally for those who actually want to do that.

Ms COURTNEY - We also need to acknowledge that is not always the driver of people performing illegal acts. As a company, there are sometimes constraints about -

CHAIR - Ladies and gentlemen. I need to inform you that it is now 5 p.m. and the time for this examination has concluded.

If anybody has not had enough of GBE hearings, you are welcome to arrive here at 9 o'clock in the morning and join me for another day.

Before we get onto that, minister, 30 seconds to thank your staff and all the officers who are with you today.

UNCORRECTED PROOF ISSUE

Ms COURTNEY - Thank you, Chair. To Rob, to Chris, Steve, Suzette and to my staff, thank you very much. I have only been the minister for a very short time but I am very excited about this portfolio and I appreciate the support everybody has provided to get me up to speed.

I am looking forward to an exciting future in the Forestry portfolio. Thank you, Chair, and a safe Christmas.

The committee adjourned at 5.01 p.m.