

GENERAL PURPOSE STANDING COMMITTEE No. 5

Tuesday 25 June 2002

Examination of proposed expenditure for the portfolio areas

INFORMATION TECHNOLOGY, ENERGY, FORESTRY, AND WESTERN SYDNEY

The Committee met at 6.00 p.m.

MEMBERS

The Hon. Richard Jones (Chair)

The Hon. Richard Colless
The Hon. Duncan Gay
The Hon. Malcolm Jones
The Hon. Tony Kelly

The Hon. Charlie Lynn
The Hon. Ian Macdonald
The Hon. Henry Tsang

PRESENT

The Hon. K. Yeadon, *Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney*

Department of Information Technology and Management

Mr W. Watkins, *Director-General*

Mr. I. Holt, *Budget Manager, Group Finance*

Office of Western Sydney

Ms M. Ryan, *Executive Director*

Sustainable Energy Development Authority

Mr M. Fogarty, *Executive Director*

Mr C. Dunstan, *Associate Director Market Development*

Ministry of Energy and Utilities

Mr B. Steffen, *Director-General*

Energy Australia

Mr P. Broad, *Managing Director*

State Forests of New South Wales

Mr R. Smith, *Chief Executive Officer*

Mr M. Clinch, *General Manager, Finance*

Office of Forestry Information

Ms J. Tracey, *Director, Forestry Policy and Structural Adjustment Units*

Ms K. Greenhill, *Manager, Worker Assistance, Forestry Policy and Structural Adjustment Units*

Sydney Water Corporation

Mr A. Walker, *Managing Director*

Mr J. Kitney, *General Manager, Finance*

Hunter Water Corporation

Mr D. Evans, *Managing Director*

Ms D. Sims, *Manager, Communications and Government Support*

CHAIR: I welcome you all to the public hearing of General Purpose Standing Committee No. 5. First I wish to thank the Minister and the departmental officers for attending today. At this meeting the Committee will examine the proposed expenditure for the portfolios of Information Technology, Energy, Forestry and Western Sydney. Before questions commence, some procedural matters need to be dealt with. Part 4 of the resolution referring the budget estimates to the Committee requires evidence to be heard in public. The Committee has previously resolved to authorise the media to broadcast sound and video excerpts of the public proceedings, and copies of the guidelines for broadcasting are available from the attendants.

I point out that in accordance with the Legislative Council's guidelines for the broadcast of proceedings, only members of the Committee and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photos. In reporting the proceedings of this Committee, you must take responsibility for what you publish, or what interpretation you place on anything that is said before the Committee. There is no provision for members to refer directly to their staff while at the table, and witnesses, members and their staff are advised that any messages should be delivered through the attendant on duty or the Committee Clerks.

For the benefit of *Hansard* and members, could departmental officials identify themselves by name, position and department or agency before answering each question referred to them. Where a member is seeking information in relation to a particular aspect of a program, or a subprogram, it would be helpful if the program or subprogram were identified.

The Committee has agreed to the following format for the hearing. The first hour will be for the Department of Information Technology and Management, the Office of Western Sydney, the Sustainable Energy Development Authority, and the Ministry and Energy and Utilities, and the second hour will be for State Forests and Sydney Water and Hunter Water. Do you anticipate that will cause any problems for you or your officers?

Mr YEADON: No, Mr Chairman. I have officers in relation to all of those areas present this evening.

CHAIR: I declare the proposed expenditure open for examination on the Department of Information Technology and Management, the Office of Western Sydney, the Sustainable Energy Development Authority, and the Ministry of Energy and Utilities. Are there any questions?

The Hon. CHARLIE LYNN: Thank you, Mr Chairman. Minister, In regard to IT, I notice that one of the key outputs of program 46.1.1, which is the Office of Information Technology, is for 100 per cent of agencies to have websites for 2001-2002 and 2002-2003. Could you inform the Committee what percentage of New South Wales Government Ministers have their own websites and where such things as press releases, speeches, transcripts etcetera, are available for members of the public to access?

Mr YEADON: Mr Chairman, the website of particular Ministers is a matter for those respective Ministers. They are not dealt with under the Department of Information Technology and Management or that subset within that department, the Office of Information Technology.

The Hon. CHARLIE LYNN: So, you cannot advise where those press releases, speeches and transcripts are available for members of the public to access?

Mr YEADON: On particular Ministers' websites? I am not aware. You would have to speak to the individual Ministers in relation to what websites they host, and what they host on those sites.

The Hon. CHARLIE LYNN: Minister, page 9-19 of the Budget Papers shows that only seven agencies were information security penetration tested in 2001-2002, while only 40 will be tested in 2002-2003. Could you inform the Committee how many agencies were untested in 2001-2002, and how many will be penetration untested in 2002-2003?

Mr YEADON: Well, you have identified agencies from the report, or both the papers that you are quoting from. Clearly they are the ones that have had penetration testing. Those that are not listed there have not had penetration testing. So, in other words, the remainder of the Government

agencies have not had penetrating testing in that financial year. But I would point out that it is an ongoing program that will test the security of agencies over time.

Appropriate security of the Government's information assets is a key issue for the success of the Government, obviously, and recognition of the increasing range of potential threats to our information assets has led the Government to review and enhance the measures taken to protect them. These measures include agencies undertaking proper risk management processes to identify the likely threats and the counter measures needed to address them. I emphasise that agencies undertake that work and monitor these measures to ensure they are effective in establishing a panel of approved suppliers for the products and services that can be used by agencies to meet their security needs.

Agency adoption of these measures is being monitored by periodic surveys of their progress and external penetration testing. The Department of Information Technology and Management [DITM] is using the results of these activities to provide feedback and support to agencies. The DITM has issued, and regularly updates, guidelines on information security, including ensuring the confidentiality, integrity and availability of information in computer and communications systems.

New South Wales is also working closely with the Commonwealth Government on the adoption of the National Gatekeeper in Australian Business Number Standard for the use of digital signature certificates. The ABNDSC is the shorthand term for that. Agencies in the New South Wales Government continue to work with the Commonwealth to consider the security of the national information infrastructure, which includes the banking and finance system, utilities, emergency services and transport that are essential for our national wellbeing.

The Government's goal is that agency information security management is independently certified against the national standard AS/NZS Group 4, or 4444, for information security and management. This independent certification will be an important step in developing the trustworthiness of online facilities in the public sector. Agencies are now working towards this goal. The Government recognises that information security is a vital aspect of the online economy and is taking practical steps to ensure that its information resources are appropriately protected.

The Hon. CHARLIE LYNN: Minister, how many instances of inappropriate penetration of agencies was identified in 2001-2002?

Mr YEADON: It would be a security risk to make that information available publicly.

The Hon. CHARLIE LYNN: As the Victorian and Queensland Governments have recentralised media release databases with extensive archives and research facilities, are there any plans to introduce a similar scheme in New South Wales? If not, will the Office of Information Technology look at the feasibility of such an internet service?

Mr YEADON: We will have a look at it.

The Hon. CHARLIE LYNN: Do you have your own media monitoring service?

Mr YEADON: No. My media monitoring is part of the overall media monitoring that is undertaken by the Government, primarily through the Premier's Office, as I understand.

The Hon. DUNCAN GAY: Mr Watkins, as director-general, does your department have its own media monitoring service?

Mr WATKINS: We pick up the information from a range of sources but we do not have a specific media monitoring program that we engage simply for that purpose.

The Hon. DUNCAN GAY: Where do you get your media monitoring from?

Mr WATKINS: We obtain information through the Premier's Department's Centralised Media Monitoring. We also undertake our own scanning of newspapers and produce internal circulars on a regular morning basis, by 10 o'clock to give us an up-to-date survey of the current issues that affect the organisation.

The Hon. DUNCAN GAY: Could you give us a costing on that?

Mr WATKINS: The cost is for one part-time individual: less than 10 per cent of that individual's time.

The Hon. CHARLIE LYNN: Minister, in the Premier's estimates hearing the other night, the Premier agreed to look at privatising the Western Sydney Business Awards and he agreed that there are a number of other organisations and agencies that run business awards, MacArthur Business Awards, for example. Would you agree with the Premier on that?

Mr YEADON: Well, the Premier has agreed to nothing. From what I understand you to say, he said he would look at it. That does not mean he has given you an undertaking to privatise it, so, your question is based on a false premise. But I think, from my perspective, I would not be keen to disrupt the Western Sydney Industry Awards and how they are being conducted at the present time, simply because of their outstanding success. Our investigation or knowledge of other awards that have been established around the country indicate that it can be up to 10 years before you really start to get a successful and widely recognised award system in place, and the outstanding thing about the Western Sydney Industry Awards is the level of their success and the time within which that success has occurred.

The Government, in setting up the Office of Western Sydney, and indeed, in putting in place a Minister for Western Sydney, quickly identified a groundswell within Western Sydney to recognise itself for its achievements and also to work in a collaborative way to further develop the economic potential of Western Sydney. It is that groundswell that we were able to tap, and we saw extraordinary success around the awards, but the important thing about the awards, is that they are not just a PR exercise or a popularity contest; they are indeed a very structured business aid if you like, in that even those people that are not successful in the Western Sydney Industry Awards, all indicate to the Office of Western Sydney and the Government that they get an extraordinary amount of benefit from those awards, because of the process that the business is put through in terms of its award assessment. That is based primarily on the new accounting regime of the triple bottom line, that a business not only has to be successful financially, its financial bottom line, but also has to be successful in terms of its social performance, its social conduct, its social bottom line, and also its environmental bottom line.

All of those issues are assessed in the award process, and of course they are also benchmarked against international performance, which is very, very important. All companies that have been through the process, winners and people who did not pick up an award in a particular year, all indicate that they get an extraordinary amount of benefit and information on further developing their business from going through that process.

The final point I would make, and this goes I suppose to the heart of your question about privatising those awards, is that you need to understand, and I am sure you do understand this because I know that you are familiar with the awards, that the awards are conducted on a sponsorship basis. The Office of Western Sydney recruits, some people might say cajoles, a range of people and organisations into being sponsors. They do not really cajole because they do not need to; in fact people are very keen to be involved. But we have a wide range of sponsors to whom I would like to very much express our appreciation for their contribution on the public record; they are people that put resources into those awards and run them. So it is not the taxpayer's money by and large, it is sponsorship money, and in that sense it comes from the private sector and great benefits come from it. So I do not see any need to change the arrangements in relation to the Western Sydney Industry Awards; they are just too successful to change.

The Hon. DUNCAN GAY: Mr Chairman, could I ask some questions on the Energy area, and I request that Mr Broad attend.

Mr YEADON: He is present, Mr Chairman.

The Hon. DUNCAN GAY: I have some questions for Mr Broad. Given that we may not want Mr Broad back and that the Minister was filibustering so much that we are almost certain of bringing the Minister back, I suggest that questions should go to Mr Broad in the first instance.

Mr YEADON: I take some exception to the claim that I am filibustering. I thought I was simply answering the member's question in relation to the Western Sydney Industry Awards.

The Hon. DUNCAN GAY: Mr Broad, first can I ask you do you have media monitoring with Energy Australia?

Mr BROAD: Yes, we do.

The Hon. DUNCAN GAY: That is separate from the Government?

Mr BROAD: It is.

The Hon. DUNCAN GAY: Mr Broad, can you detail to the Committee the consortium arrangement concerning PowerTel?

Mr BROAD: PowerTel is a listed company. The market owns 25 per cent of PowerTel. Williams, a listed telecommunications company in the United States, owns I think roughly 45 per cent and a group called Downtown Utilities, a separate company, owns 30 per cent. Downtown Utilities is a made up of Energy Australia, Citypower in Melbourne and Energex in Queensland.

The Hon. DUNCAN GAY: What is the total value of Energy Australia's investment to date in PowerTel?

Mr BROAD: In the order of \$70 million.

The Hon. DUNCAN GAY: In your half-yearly report to December 2001, Energy Australia indicates that the investment in PowerTel is \$13 million. What has caused this devaluation?

Mr BROAD: We marked the market, the investment in PowerTel each half year, so the market entry price for us versus the market price at that time determines the book value; so the normal accountant practices are that you mark the market for business.

The Hon. DUNCAN GAY: Your half-yearly report stated that the underlying result in earnings before income tax was \$11.9 million ahead of the year-to-date target. Why was that?

Mr BROAD: We have done exceptionally well in our retail businesses and our external businesses, which are winning business both in wider New South Wales and other States; plus we have some small businesses doing work in New Zealand and elsewhere that have done exceptionally well in the first half of the financial year, and I am pleased to say that we expect even better results in the second-half of the year.

The Hon. DUNCAN GAY: Do you consider your investment so far in PowerTel as being good value for your shareholders?

Mr BROAD: If you recall how PowerTel was established, PowerTel originated from us providing access to our ducts. So three energy companies gave access to ducts for equity stake in PowerTel. Traditionally we only collected a small retainer for access to our ducts or our poles. Particularly, we were concerned that the Optus deal did not earn a positive return for us and the way to extract return was to take an equity stake in the business. When PowerTel was established, Downtown Utilities got a \$50 million free equity in the venture, and we topped that up with extra equity to further our investment. The value of PowerTel's inducement to us has gone up and down significantly in that time and there is no doubt that we are all disappointed about the current share price of PowerTel. At the PowerTel annual general meeting the chairman was at pains to point out that despite the difficult market, PowerTel had grown its on-net businesses, the businesses that are on-net to PowerTel, at a rate in a very flat telco market. But, of course, the market values, and the risks involved with PowerTel, are such that they have written down the share price and we have worn that on our books. What the long-term position of PowerTel is, I cannot judge; you would have to ask PowerTel itself that.

The Hon. DUNCAN GAY: Mr Broad, it is stated, both in your half-yearly report and in a submission you made to IPART on forms of regulated return, that Energy Australia is having problems with cash flow. What has led to a position where a major public utility like yours is facing negative cash flows?

Mr BROAD: Because of the inappropriate regulatory arrangements we have in New South Wales on electricity businesses. We have a revenue regulation and as you might recall, revenue regulation guesses how much growth you will have in the system over a four-year period. Unfortunately, when the revenue regulation was set four years ago we thought our system growth would be 2 per cent. Our system had grown over 4 per cent. In fact the peaks in our system—we had a record figure again the other night—have been such that they put tremendous loads on our system.

We do not shy away from the fact, nor does the Government shy away from the fact, that we will invest in the infrastructure in this city to sustain the energy loads that are occurring to date. So the cash position is driven by the capital demand to cater for the high growth. The growth, when revenue was set four years ago, was going to be 2 per cent, and we ended up with 4 per cent. The capital expenditure you have to make over a period was to cater for a 4 per cent growth; so you are spending capital to create 4 per cent, your revenue is growing by 2 per cent, and you have a gap, which you fund that by a debt. That is an appropriate thing to do when you have a peak in your system.

We expect, over time as the regulatory arrangements change and we have more price regulation, that the income catch-up for the capital expenditure we are making will sustain value in the company. So at the moment our cash is an issue that is actually going to turn positive. But, given the amount of the capital spent, it will be for a few years.

The Hon. DUNCAN GAY: Will you be seeking to increase tariffs to improve your cash position? Is that how you are going to resolve this negative cash flow?

Mr BROAD: The prices are determined in the marketplace. As you know, full retail disability happened on 1 January this year, so prices are competitive in the marketplace. For network businesses, IPART returned its prices. As you may recall, we have had dramatic reductions in our network prices. Last year I announced an 8 per cent reduction in our network prices. Our position is that that is on the high side. We would argue, and have made submissions to IPART, for price increases to cater for the high growth. We argue that those who demand the power should pay for more power. So we have argued for price increase to pay for growth, but that is on the back end of significant price reductions: 8 per cent last year and significant price reductions over the last 10 years.

The Hon. DUNCAN GAY: Do you agree with that, Minister?

Mr YEADON: Yes, by and large. The only thing I would add is that, of course, there may be some relief there for businesses like EA from the IPART's mid-term review. I asked IPART to undertake a mid-term review, and indeed they came out yesterday with their draft response to that review, and it indicates generally across the board CPI plus 2 per cent, or \$25 for individuals, whichever is the highest.

The Hon. DUNCAN GAY: Mr Broad, at what stage with PowerTel do you make the decision that enough is enough, it is time to move along? Are you close to that decision?

Mr BROAD: PowerTel is a different entity and I would not like to speak at all about PowerTel, or about DTU's position. We have publicly stated many times that we see PowerTel's investment as a long-term investment. We are not doing this for speculative purposes; we were a cornerstone investment in PowerTel because we believed in the model and we said publicly many times that DTU is not selling.

The Hon. DUNCAN GAY: Thank you, Mr Broad. Minister, do you accept that your plans to impose compulsory greenhouse reduction targets with fines for non-compliance on a State basis has the potential to have a detrimental impact on business in New South Wales?

Mr YEADON: Not a significant one. It would be a very small portion of big business and the impact would be not significant.

The Hon. DUNCAN GAY: Why would it not be?

Mr YEADON: Because we have put in place a system that centres very much on output, which is in contrast with to the Federal Government's renewables program, which is on input. To explain that, they are just requiring a mandatory 2 per cent renewables over a particular time frame, regardless of the outcome of that vis-a-vis costs, in other words a cost benefit analysis. New South Wales is saying that we will not dictate what generation method is used, or indeed what mitigation method is used, because it does not have to be generation. It can sequestration, for example. As a result of that, businesses, retailers, are able to enter into an arrangement that gives them the best cost outcome for the greatest reduction in greenhouse gas emission equivalent.

To give an example of that outcome, if you look at our scheme, our scheme will cost over the time frame three times the amount that the Federal Government's renewables program will cost, but our outcomes will be 10 times the amount of the Federal Government's renewables program. So it is that flexibility—in other words the decision by retailers themselves to determine on a cost effective basis the best way to meet the mandatory greenhouse benchmarks that we have in place—that will ensure that we get the maximum benefit for the least impact on business, and that is why it will be a low impact on business. The Government is extraordinarily proud of that program.

Indeed, it is recognised within business itself, in that we have had a whole range of prominent business people coming forward and saying that the New South Wales approach is the sound, practical way to go. Indeed, we will have better cost outcomes and greater savings for business in the medium to long term in that we are addressing the issue in a staged and manageable way rather than leaving the situation until it reaches crisis in relation to international agreements or any other obligations to reduce greenhouse gas emissions and therefore has a high cost to do that in an unplanned way, or, if you like, in an unsystematic way. That is why we get good value and that is why there will be a minimal impact on business.

The Hon. DUNCAN GAY: Minister, you indicated that a number of businessmen have congratulated you, yet one of your own distributors, in a submission to the COAG Energy Review, argued that a national scheme is needed, and that incentive schemes encouraging compliance would be preferable to penalty regimes like yours.

Mr YEADON: We certainly agree that it should be a national scheme and when we first developed a policy, the Premier of New South Wales took that policy to a COAG meeting and put it on the table and requested the Prime Minister and other State Premiers to adopt our policies so that it could be put in place as a national policy. In doing that, he explained the cost benefit analysis and approach of that policy. That, unfortunately, was rejected by the Federal Government and other State Premiers. This issue is the most pressing environmental issue that we face as a planet and as a nation and indeed as a State, and therefore the New South Wales Premier and Government resolved that we simply could not sit and wait for the rest of the nation, that we would have to go out and demonstrate by practical leadership how to deal with these issues. Therefore, we tried to put in place a national scheme, but we were unsuccessful in that, so we had to act unilaterally and that is what we have done. The second part of your question was?

The Hon. DUNCAN GAY: National penalties.

Mr YEADON: We had, as you may know, a voluntary system in place with electricity retailers in New South Wales, from 1996-97, for the reduction of greenhouse gas emissions. All but one or two retailers failed to meet those benchmarks; it is unfortunate to say that they did not just fail in a minor way but rather dramatically, and it became clear, as a result of the implementation of that voluntary policy and its failure to work, that it just simply was not adequate, it was not dealing with the situation and therefore we put penalties in place.

The Hon. DUNCAN GAY: What will the money collected through the penalty scheme be spent on? Is it likely to be allocated to the Consolidated Fund, or will the moneys be made available to promote greenhouse-friendly energy sources?

Mr YEADON: I would anticipate no penalties, Mr Chairman. I am sure that all New South Wales electricity retailers will comply and therefore the money will be spent on mitigating greenhouse gas emissions.

CHAIR: Following on from that series of questions, have you made an estimate of how many jobs will be created by these impossible benchmarks?

Mr YEADON: No, that would be not possible to undertake at this time, Mr Chairman, because, as I indicated, a key component of the policy is its flexibility in relation to meeting greenhouse gas reductions and therefore it will be the decision of retailers themselves as to which part they will take. We will need to see the practical roll-out of that policy over the next few years and then we will be able to assess, or at least to monitor, what sort of jobs are being created. By way of example, if retailers take up carbon sequestration as one of the approaches to reduce greenhouse gases, we already know from work in wider forestry activities that for every 50 hectares of plantation forest that is planted, one job is created. We can work out what jobs will be created, but we really need to see where that investment will go by retailers in the first instance.

CHAIR: At the Total Environment Centre breakfast recently, we heard that British Petroleum or Beyond Petroleum as they prefer to call themselves these days, is building a photovoltaic plant in Spain, using Australian technology to supply customers in the Philippines. What can you do to try and keep these jobs in New South Wales, rather than their being exported to Spain, with our technology?

Mr YEADON: I suppose the key avenue for the Government is through Pacific Solar, which is a subsidiary of Pacific Power at the present time, although the arrangements will probably change in the not too distant future. The Government has had an interest in and has invested money in that vehicle over the last few years. There are other players in it, for example the University of New South Wales, and the technology for a photovoltaic development is indeed a key component of the University of New South Wales' approach. We also have a new partner that joined, from memory, about a year or 18 months ago, an Italian firm called Euro Solairate. That is an Italian firm that has developed very sound technology from my understanding of the information provided to me by Pacific Solar and it will be through that vehicle that New South Wales will I think have its greatest success in the photovoltaic area and in ensuring intellectual property return and that jobs will be created out of that.

CHAIR: What is the current Government investment in Pacific Solar?

Mr YEADON: I think from memory, somewhere around \$50 million.

CHAIR: What sort of per annum return do you expect to get on that money and when?

Mr YEADON: That cannot be determined at this time. We are in transition of moving from research and development into production and we have not yet established the initial trial production facilities and so forth, so I can't answer that question at this time. But the Government is hopeful that it will get a decent return on that investment.

CHAIR: Do you have an investment in the new Spanish plant being built by Pacific Solar? Is that part of the investment?

Mr YEADON: I will have to come back to you on that. I am afraid I am not sure of the Spanish angle. I did not know Pacific Solar was involved in the plant in Spain. Are you sure it is not somebody else? I am not sure that it is Pacific Solar's technology.

CHAIR: It was certainly BP, and presumably Pacific Solar is building this plant.

Mr YEADON: No, BP is working with other people in the private sector; one that I am aware of, I cannot recall his name, but I have seen some correspondence between him and BP in relation to photovoltaic development. But that is separate from Pacific Solar. BP is not a partner in Pacific Solar. I think you have a different venture there; it is not one associated with the Government.

CHAIR: The bottom line is, how can we ensure there is a big take-up with the Pacific Solar technology in New South Wales, which will obviously be enhanced by the benchmarks anyway, to a certain extent.

Mr YEADON: The answer to that is very straightforward and that is in relation to the previous question about retailer electricity benchmarks for meeting greenhouse gas emissions. Putting that compulsion in place will ensure that those retailers need to seek avenues to reduce their greenhouse gas emissions, and one of those avenues of course is photovoltaic cell.

CHAIR: Do you have any figures on the savings to householders, for example, on using only Pacific Solar technology, compared to buying electricity generated by coal burning?

Mr YEADON: Not Pacific Solar. Through their Plug'n'Play or Plug'n'Work, which is their computer technology, at the moment the economics are not really there. There are subsidies for photovoltaic cell installation, but the reality of it is that they have an expensive up-front capital cost and for them to be paid off—I know it disappoints you but unfortunately the reality in relation to their production costs of photovoltaic cells is that they are the least commercially attractive avenue of greenhouse gas reduction. They are expensive. There is no two ways about that, and we have subsidies in place to encourage people to take up that technology, but even with those subsidies I have got to say to you that they still do not remain a very attractive approach.

CHAIR: Have you got any figures on your belief on the take-up through carbon sequestration and how that will be increased by the benchmarks?

Mr YEADON: A framework around the benchmarks allows for flexibility. People can go and get into any renewable generation, which is wind, solar or hydro, or they can take up things like gas-fired generation, which has lower emissions than coal fired generation, and of course move on to things like carbon sequestration. We believe that a number of players will pick up carbon sequestration as an approach. They may do that through the planning of their own carbon sequestration plantation forest, or indeed they could go to a third party and purchase accumulated carbon credits from that third party. We believe that it has the potential to be a very attractive investment for retailers meeting their benchmark reduction.

CHAIR: You presumably have, or somebody in your organisation has had a talk to the retailers to find out which way they will be going to meet the benchmarks.

Mr YEADON: No, Mr Chairman, not in detail. We have said to them that they can pursue any of these avenues. Now, it is up to them, and I am sure Mr Broad and a whole range of other CEOs of these retailers will indicate to you that they will make that decision on a commercial basis, in other words, how they can meet those benchmarks at the least cost. That is a matter for them, and they will not discuss that and probably should not discuss that with the Government in detail. That is a commercial decision for them. The only thing that the Government and its policy requires is that they meet those benchmarks, and if they do not meet them within the time frame, they will be penalised.

CHAIR: Can we perhaps hear from Paul Broad about which way he thinks he may be going, or the other people he knows may be going?

Mr BROAD: We think the whole spectrum of alternative renewable sources will occur. For us, in particular, Energy Australia has the largest load, and has the largest impost to licence. We welcome the Government's move. We think it is the right thing to do. We think that the market now is going to emerge in renewables, and for us the classic is of course using the old dump sites. We use the sites down at Lucas Heights now, and produce a lot of energy out of that. We are looking for deals with Collex down at the Woodlawn sites, down in the south. There is another one in Queensland which we are looking at as well. So, we think the renewables market is now starting to emerge very aggressively because of the leadership role the Government is play in setting down clear targets that we have to meet. The relative price of that is coming down significantly. We are finding the markets now are starting to happen, and that the price that we would have thought we would pay 12 months ago is down significantly. We also see lots of gains in demand management. We are looking at options; for example, trialing a project, we are hooking up the whole of the city and its air conditioning loads. If we can change the way they use energy within buildings like this, we can change dramatically the

energy consumption of a city by amending the loads. So, we think combinations of alternatives in renewable sources on the supply side, and changes in the demand side, will have significant impacts in our meeting our license conditions.

CHAIR: So, that brings us to the question of demand management, and how are you working with demand management. That is one of the ways to save greenhouse gas, is it not?

Mr BROAD: It is. Of course, when prices are relatively low, it is hard to change the demand patterns. We would argue passionately that the time to change demand is the time when buildings are being built, and capital is being invested. So, we are looking very much in partnership with the Government and other planning authorities to get changes in the way building approvals are made; and building incentives for new developments, to put in alternative gas-fired chillers, looking at smart energy efficient devices. As you are probably aware, we subsidise solar hot water systems in all homes, we subsidise solar hot water to make it as cost effective as normal hot water systems.

So, the whole range of things is now starting to change the demand patterns of how people use energy, but unfortunately the energy loads are climbing, particularly the air conditioning loads. New developments are now having to have the air conditioning attached to the new developments, and the air conditioning loads are growing reasonably in the city. Changing the habits on air conditioning would be a huge impact on load rates for future greenhouse gas emissions for generations.

CHAIR: The statement of systems opportunity report, indicates that installed power generation capacity may need to expand by as much as 25 per cent by 2010. So, how much do you think the 25 per cent will be renewable and how much will be through gas-fired?

Mr BROAD: Well, under the licence condition that we face, something like 20 per cent of our load, and we are the biggest, will have to come from renewables over the next 10, 15 years, so a significant part of that load is going to come from gas-fired peakers, from renewable resources, and changing demand patterns. That will be where the big impact is. We are, impacting, like the Minister says, for a national scheme. We think New South Wales is again showing leadership on this issue, but it is crying out for national leadership. We need to have a national approach for a national market so you do not simply have substitution from one State to another.

CHAIR: But South Australia is looking at increases of 40 per cent of electricity prices over the next few years, so, how could they join in such a scheme, facing such huge increases.

Mr BROAD: Well, I think all States can join in, and if you take a national approach to greenhouse, Mother Nature does not see the State differently. The idea would be to simply have one approach, one national scheme, so you do not get distortion in the national market as you will get when you do not have a national approach. New South Wales has shown leadership constantly in this field, and will do so, and that is great. We knew New South Wales would get in there and back it, but we do need a national approach.

Mr YEADON: In regard to that, Mr Chairman, for a true national electricity market and not just simply for dealing with greenhouse gas emissions but also pricing, if you are going to have a true national electricity market, then you need to get decent interconnects in place, so that the energy can flow where the demand is without system constraints. The New South Wales Government has been working stridently on that at the national level to ensure that interconnects between New South Wales and South Australia go ahead, and indeed between Victoria and the Snowy Scheme and so forth, called Snowlink Interconnect. Indeed, the recent interconnection that was concluded between New South Wales and Queensland demonstrated the benefit of that, and you can see the levelling up of prices within those markets. So one of the answers is that if you have decent interconnects, and a real operating national electricity market that New South Wales is committed to, regardless of where the generation is, renewable or low emission or indeed even coal-fired can be transmitted to where the demand is.

The Hon. MALCOLM JONES: How soon is it likely that we will have a national grid?

Mr YEADON: It is getting there. Whilst there is some legal action around aspects of an interconnect between New South Wales and South Australia, there is the SNI interconnect, which is a

regulated interconnect. It has been approved and, indeed, that is what the litigation is around. There is the Murray link, the proponents of which are undertaking that litigation. There has also been the approval of the Snowlink Interconnect and that will go a long way to providing a transmission system that will not be so constrained by State boundaries as it has been in the past, and as I indicated, there has recently been the conclusion of the interconnect between New South Wales and Queensland and that is working very well. So, we are moving there, and New South Wales again has been the strongest proponent for the implementation of interconnects, and particularly regulated interconnects.

The Hon. MALCOLM JONES: So, getting back to my question in terms of how long: three years, five years?

Mr YEADON: Well, notwithstanding the litigation, those schemes I think have a project life of around three years to include all of them, so, yes, at the conclusion of that period, we will be getting close.

The Hon. MALCOLM JONES: If I could turn to some budget items, operating expenses, I suppose I really should direct my question to Mr Broad. You have line items here for education and marketing expenses.

Mr YEADON: Forgive me for interrupting, but as I understand it, the honourable member is directing the question to Mr Broad. His organisation is an off budget agency, so any line items will have to be directed to me.

The Hon. MALCOLM JONES: Through you, then, Minister. In Budget Paper No. 3, Volume 2, page 9-37 there is a line item for "Education and marketing expenses". Now, can I assume from that that in the marketing of renewable energy there is an identifiable amount there.

Mr YEADON: I think the item that you are identifying relates to the Sustainable Energy Development Authority.

The Hon. MALCOLM JONES: Yes. I would like you just to expand if you would not mind on this term "education and marketing". Is that an attempt to educate the public in the use of this type of energy.

Mr YEADON: Yes. As I understand it, Mr Chairman, that item deals with public education, in other words educating the public about energy efficiency and environmental benefits.

The Hon. MALCOLM JONES: When does this education take place? What form does it come in?

Mr YEADON: I will ask the head of the Sustainable Energy Development Authority, Mr Mark Fogarty to answer that.

Mr FOGARTY: The education and marketing campaigns that we are referring to are primarily awareness campaigns associated with principally the issues of energy efficiency, so, efficiency in the residential sector, and efficiency in the commercial and industrial sector. It is primarily public awareness campaigns that we may run to create awareness and to continue to promote the important issue of marketing transformation.

The Hon. MALCOLM JONES: Are these television campaigns? Are these through whitegoods and marketing outlets or where people sign up for renewable energy?

Mr FOGARTY: They are across the raft of, I guess, the activities of the Sustainable Energy Development Authority, so they are very much the communications process in which we take the important message of market transformation forward. So it is about promoting to the business and the commercial industrial sector the benefits of our EnergySmart business program, the benefits perhaps in the Government sector of our Government program, which we run with a number of other agencies, the benefits in the residential sector of embracing some of the practical things that could be done in a household. So it is right across that spectrum.

The Hon. MALCOLM JONES: The next item is "Fee for services for program delivery", which is substantially more than the last item. Can you just expand on this "Fee for services for program delivery"? What does that mean and who is it paid to?

Mr FOGARTY: Well, primarily, SEDA has been attempting over the last couple of years to promote, where appropriate, self-sustaining revenue. So SEDA has, clearly, as I indicated in the earlier answer an important role in market transformation. In terms of taking that out, whether it be by way of communication or taking it out by way of appropriate partnerships as we attempt to secure the overall reduction in greenhouse gas emissions, we have identified where we think it is prudent that we source some income. So that fee for service income may come from sources such as other sources of funding, other Government agencies, other Federal Government agencies, and in the case of perhaps a commercial industrial sector where we think that it is appropriate that they begin to pay for the energy efficiency programs that we are running forward. So it is primarily all revenue other than the Treasury revenue.

Mr YEADON: But I think you are under a misunderstanding that you think it is fees paid by SEDA to people. It is not, it is fact fees paid to SEDA.

The Hon. MALCOLM JONES: Well, it comes under expenses. If that was the case, Minister, it would come under income.

Mr FOGARTY: That is the way it is really recorded. The answer that I have just given is the correct one, that is, the revenue expectations that SEDA has—when I say the revenue, I mean the non-Treasury revenue expectations that we have. So I guess it is the wording there that is confusing. It is the way the accounting methodology is operating with the Government where it is identified as expenses. But it is in fact the revenue that we secure back and channel back into the programs that we offer in the commercial, industrial, residential, and renewable programs.

The Hon. MALCOLM JONES: Can I suggest that it is in the wrong place in the papers.

Mr YEADON: Well, perhaps. One of the reasons I suspect is that the money that is earned by SEDA under the role that they play, in other words, in the medium to long-term to become self-sustaining, is not money that goes back into the consolidated revenue. So, it is just recorded in the books as being spent within SEDA on the anticipated amount of revenue which we will raise.

The Hon. DUNCAN GAY: Mr Fogarty, earlier the Chairman mentioned the Total Environment Centre breakfast, of which SEDA was the sponsor. Do you feel that it was appropriate to be the sponsor of that breakfast in what appeared to be little more than a Total Environment Centre fundraiser, given that the invitation contained a section where you could make a donation to the Total Environment Centre [TEC] if you were unable to attend.

Mr YEADON: Well, I might answer that if I could, Mr Chairman. No, it was not inappropriate in that SEDA has a role, as has been pointed out by Mr Fogarty, to seek market transformation to educate the community. That was, quite frankly, a first class forum and I congratulate the TEC on it. Whether or not they were making money out of it is irrelevant. Not only was SEDA there, but I attended that forum, as did the head of BHP.

CHAIR: BP.

Mr YEADON: The head of the IPART, Professor Tom Parry, attended that forum, and there was a very stimulating debate that went right to the heart of these issues that SEDA is charged with undertaking. It was not just a volley of TEC people but people from a whole broad range of backgrounds and that reflected as much in the speakers as the audience, and it was more than appropriate. It was a first class day for this Government to deliver and articulate its policies to people within the community, through myself, through Mr Fogarty, and indeed to some extent through the IPART.

The Hon. DUNCAN GAY: So, Minister, you consider it appropriate that Government money, taxpayer's money, is spent on an invitation that solicits donations to what is a lobby group?

Mr YEADON: No, I do not. I believe it is appropriate—

The Hon. DUNCAN GAY: But that is what you just said.

Mr YEADON: Yes, I believe that it is appropriate for organisations like SEDA to be involved in such functions as an avenue for informing the community.

The Hon. DUNCAN GAY: No, but you are ignoring my question, Minister.

Mr YEADON: No, I am not, I am answering you.

The Hon. DUNCAN GAY: Yes, you are.

Mr YEADON: I believe it was appropriate that they sponsor the guests.

The Hon. DUNCAN GAY: So, once again, you believe it is appropriate for one of your departments to sponsor a function that solicits money for a lobby group?

Mr YEADON: It is appropriate—

The Hon. DUNCAN GAY: Would you do the same for the New South Wales Parliament?

Mr YEADON: —for them to sponsor a forum that allows for community education. That is their role.

The Hon. DUNCAN GAY: Would you do the same for the National Party?

Mr YEADON: Yes, if you were holding one. We would—yes.

The Hon. DUNCAN GAY: I will hold you to that.

Mr YEADON: Send me a letter on it and I will respond to you about it. No problem.

The Hon. MALCOLM JONES: Can I now return to energy and utilities? I draw your attention to the same volume 2, at page 9-27.

The Hon. MALCOLM JONES: First of all, in "Grants and subsidies" at the top of the page under "Payments" there is a significant decrease in 2002 to \$80 million in round terms, scaled down from \$95 million in the previous year. Can I ask why that is?

Mr YEADON: The variance of \$27 million in the energy concessions is as follows:

Increased expenditure of \$1.7 million, owing to an increase in the pensioner rebate from \$107 per annum to \$112 per annum, increased expenditure of \$345,000 owing to an increase in life support rebates.

That is for people who are on life support systems:

Increased expenditure of \$25 million owing to a change in the rebate reimbursement terms for electricity retailers.

The Government decided to reimburse electricity retailers on a month-in-arrears basis instead of six-monthly in arrears as was previously the practice previously. We used to pay six months in arrears. What we did under the changing policy was to bring that up to be paid one month in arrears. This minimises the impact on electricity retailer's cash flows—so we are helping Mr Broad and others—and more closely reflects commercial payment terms, because most commercial businesses operate on payment in 21 days or 30 days.

So bringing the outstanding amount of pensioner rebates and life support rebate from six months in arrears to one month in arrears required a catch-up payment equivalent to five months of rebates to retailers to fill the gap. So this has had a one-off increase effect on the current year's expenditure of approximately 25 million. So, in short, what you have got there is a spike in payments

because we have shifted it from six months in arrears to one month, and we owed it anyway, and we have just concertinaed it up to one month in arrears and it will now plateau out and go back to what it was, notwithstanding the \$1.7 million recurrent increase as a result of shifting the pensioner rebate from \$107 up to \$112 per annum.

The Hon. MALCOLM JONES: On the very next line we have a very substantial decrease in "Other", from \$7 million down to \$4 million.

Mr YEADON: That figure, as I understand it, is in relation to FRC for retail contestability policy and primarily was about education programs and so forth. They are concluded and therefore there is a significant drop in the amount of money that is going to that area.

The Hon. DUNCAN GAY: Mr Chairman, we have had an hour for the Department of Information Technology and Management, the Office of Western Sydney, the SEDA and the Ministry of Energy and Utilities, certainly from the Opposition. We had a total of half an hour, 15 minutes for Energy and 15 minutes for Information Technology and Western Sydney. We did not even get to ask a question on Western Sydney. Can I indicate that when we deliberate at the end of the hearing we will be requesting to re-visit this area at a subsequent meeting.

Mr YEADON: Well, Mr Chairman, we tried to sort of ascertain the working of the Committee and sought to find out whether we could deal with everything this evening and we were told that it would be dealt with this evening and as a result of that I have brought these people along this evening. I just express some concern about the waste of valuable time and money bringing people in for nothing. I say that on the basis that we sought initially to try and get some indication from the Committee as to whether the time frame would be adequate and who would be dealt with and it was indicated to us that it would be dealt with in this time. So I would just express that concern. I am more than happy to take questions on notice and you will still get your answers to them. We will respond within 35 days.

It is my understanding that the Director-General of the Department of Information Technology and Management, Warwick Watkins, needs to make a clarifying statement to the Committee.

Mr WATKINS: Thank you Minister. In regard to the question I received earlier on media monitoring, I replied that we received our media monitoring from a range of sources. I omitted to say in my reply that we received monitoring services reports from Media Monitors at a cost of \$4,500 per month. However, from 1 July of this year we will be receiving our core media monitoring material via the centrally co-ordinated media monitoring activities of the Premier's Department. I just wanted to clarify that so there is no misunderstanding.

CHAIR: I want to ask about Sydney Water. Minister, we really would have preferred more than two hours. There are so many portfolios that you cover and it is amazing that you can cover that workload. We try to squeeze in the questions to fit. I have questions too that I cannot ask. I will put some of mine on notice. It is a pity that we did not actually have more time and that so many valuable people have come here tonight. Minister, we will ask questions on Forestry first and then move to Sydney Water.

The Hon. CHARLIE LYNN: Minister, could you advise the position that Shane Gilbert holds in State Forests?

Mr YEADON: General Manager, Strategy and Policy.

The Hon. CHARLIE LYNN: He is obviously a political operator within the department?

Mr YEADON: I am not sure what you mean by political operator. He is the officer within the organisation that has the responsibility for strategy and policy, relating to State Forest activity, not to political activity.

The Hon. CHARLIE LYNN: I refer to a letter that he drafted for Mr Bob Smith on 2 December 2001, when he sent a memo to, I think it is Ginny, and he says, "Ginny, I haven't sent this to Bob yet. You can see that State Forests have some problems. Can I talk to you more about this?"

Shane.” In the letter it says, “As you know Dodds[?] agreed but I find out on Friday night that he’s still doing it in Eden,”—this is the tree poisoning—“which now puts the Minister in a position of having”—I’m sorry, I will have to come back to that question. It is about the tree poisoning issue and in a draft letter to Bob Smith, he says:

The statements last Friday were made in relation to the tree poisoning issue on the south coast. When I took the call from Messenger late on Friday—

Messenger was the reporter in the *Canberra Times* who wrote an article on 2 December—

he referred to our use of Agent White to kill trees and that that chemical has known direct and severe human health effects. It was going to be a very bad article for us and the Government, even it was not true. I knew the acute sensitivities of the Premier’s and the Treasurer’s offices to this issue and that another stinker of an article would give rise to the direct intervention of the Premier to direct the Minister to direct you to terminate the program on the south coast. All of this on the eve of a protest planned for outside Parliament House next Wednesday would not have us look real sharp. A complete disaster for the Government and us with potentially very serious repercussions for the organisation.

Minister, does this mean that it is true that State Forests have been using Agent White to poison trees on the south coast?

Mr YEADON: I am not familiar with Agent White, I am not a herbicide expert, but I am advised that when State Forests in the southern region and the south-east region used herbicide, it was Tordon double strength.

The Hon. CHARLIE LYNN: That is Agent White as I understand it, is it?

Mr YEADON: I do not know.

The Hon. CHARLIE LYNN: They use Tordon everywhere. Every farmer in New South Wales gets Tordon.

Mr YEADON: My understanding is that Tordon double strength, or Tordon as a herbicide, is widely used in the agricultural and other primary production industries and indeed is used by councils along the side of roads to deal with weed infestation. My point there is that it is quite widely used throughout the community.

The Hon. CHARLIE LYNN: In the letter he refers to a Bill Frew and I am not quite sure who Bill Frew is, but he says that:

Frew told me that he put negative advice to the Minister’s office that the article would cause harm to State Forest operations in the Native Forests Division, that I had breached the (protocol); that the article seems to be a manifestation of me working outside the organisation protocols because of my access to the Treasurer’s and the Premier’s offices and that we needed to go into damage control.

That was my original question to you. He is obviously your political operator in the Department of State Forests because of his direct access.

Mr YEADON: He has no direct access to me, only the email. He is in meetings periodically but they are not very often. In fact, the main contact that I have with Mr Gilbert is in relation to the State Forests carbon sequestration policy development and that is by and large, in fact I would say almost exclusively, the only basis upon which I have been in meetings with him, which are infrequent. He does not have direct contact with me and I would point that the email is not addressed to me either. It is not an email to me. I was unaware of it until it was put on the public record only about a month ago.

The Hon. CHARLIE LYNN: It is clear that you are out of the loop, that he works directly to the—

Mr YEADON: Why ask the question if he is my political operative when you say he is out of the loop?

The Hon. CHARLIE LYNN: This is stuff that is in your area of responsibility and the fact that he has worked directly with the Premier and the Treasurer—

Mr YEADON: The email is not directly to the Premier.

The Hon. CHARLIE LYNN: He states here that he has direct access to the Premier and the Treasurer. He is ignoring you or bypassing you. What action have you taken to make sure that you are kept in the loop?

Mr YEADON: He may indicate that he has direct access to the Premier and the Treasurer, but that is news to me.

The Hon. CHARLIE LYNN: Is he big-noting himself?

Mr YEADON: I think he might be, yes. I am not aware that he just walks into the Premier's office when he feels like it.

The Hon. CHARLIE LYNN: He has written another note to Ginny. Do you have any idea who Ginny might be?

Mr YEADON: My understanding is that it is Miss Virginia Knox in the Premier's office.

The Hon. CHARLIE LYNN: That would indicate a fairly familiar relationship, would it not, for somebody who is supposed to be a bureaucrat? He says in a memo to Ann Maree Doran on 3 December, "Your position that we have not misled and can still poison trees is simply unsustainable based on fact." The Minister has said the program was suspended and yet we find out on Friday night that that is incorrect, so it clearly meant that you, inadvertently I would suggest, mislead the Parliament. But under the Westminster system, if you do mislead the Parliament, the Minister normally tenders their resignation. What is your policy if a senior Government agency misleads you and consequently the people of New South Wales on an issue like that? Are they asked to tender their resignation, or what action would you take?

Mr YEADON: There would need to be action taken, but the point is that I was not inadvertently or otherwise misled. It was the case that the use of herbicides in post-logging activities in the southern management area was ceased. That really came out of a request by me, as the Minister, and it followed on from the issue of herbicide being used in that area publicly, but it did not apply to the south-east management region, where there was a very different program, a pre-logging herbicide program. The only thing that I can conclude from the document that you are quoting from is that that officer has a misunderstanding in relation to what policies were applied on the ground in those two management areas. In other words, he has confused the two when it was simply one.

The Hon. CHARLIE LYNN: I refer you to another memo, again from Shane Gilbert to Virginia Knox, which says:

In the circumstances and pending advice from Bob Smith after you've spoken to George Jones, I think the political system should send a message to Anderton and Jones that from now on, until the decision from Refshauge, that Jones, Chairman, should be in attendance at all high level meetings with the New South Wales Government. In relation to the Parliament this week, the prepared parliamentary questions should stand and we do not deviate from the strategy. This forces the issue onto the community and the Opposition. The Premier's position is now on the record and if the project is destabilised then it is entirely due to the Opposition. Perhaps Gerard Martin should be doing some work on the Opposition now to protect his interests in Lithgow.

Minister, is it normal practice for Government agencies to provide such blatant political advice on issues to Government?

Mr YEADON: I am not aware of the document.

The Hon. CHARLIE LYNN: It is obvious that your own Government agency has given advice directly to the Government and Treasury, but they obviously do not trust you or your ministerial office in handling the politics on this issue. Is that a fair comment?

Mr YEADON: No.

The Hon. CHARLIE LYNN: Well, he has.

The Hon. ANTHONY KELLY: Are we going to run out of time, because these questions are about some bureaucrat double-guessing Government policy.

CHAIR: The questions are in order.

Mr YEADON: I am not the author of these documents and you are asking me to say what these people were thinking or what they were doing. I am not the author of the document and it is not written by me, it does not come out of my office, and I cannot say what these people were thinking or what they were doing. I did not craft the document.

The Hon. CHARLIE LYNN: Could I just ask the question to Mr Bob Smith? Mr Smith, when these matters were raised in the Lower House, who instructed you to go down to the Parliamentary Press Gallery to lean on journalists on behalf of the Minister?

Mr SMITH: I was leaned on by no-one. I went down of my own free accord to actually explain some of the technical detail where the journalists were getting confused between the two programs.

The Hon. RICHARD COLLESS: Thank you, Mr Chairman. Minister, I would like to ask you some questions regarding the availability of timber for production from State Forests, particularly in the north-east forest. Can you confirm that the following forests I will read out to you and are available for timber production under the upper and lower north-east regional forest agreements, will not be converted into national parks? They are Whian Whian, Sheas Nob, Pine Creek, Queens Lake, Upper Fine Flower Creek, Mount Marsh, Bungawalbin, Chaelundi and Washpool.

Mr YEADON: My understanding is that list that you have read out has been put together by an environmental group, under the north-east forest alliance, so it is not a Government proposal. In relation to all those areas that you nominated, the Government is honouring its commitment to give further consideration to whether additional public land might be reserved as national park. As far as the regional forest agreement outcomes on the north-coast, there are always to be additional negotiations in some limited areas of forest without impacting on timber supply and I very much emphasise that—that there was to be discussion on limited areas—but it was to be without impacting on timber supply. That included areas of possible mining as well, not just simply forestry activity.

This commitment was reiterated in a Government statement of action for the environment, which was released in June of 2001, a year ago, which undertook to complete the assessment of public land in the north east, consistent with the RFA, and decide which areas should be added to the formal reserve system. The Resource and Conservation Division of Planning New South Wales is co-ordinating the negotiations, which aim to provide additions to national parks to further improve conservation objectives and ensure the maintenance of contracted timber supply volumes. I emphasise that second point: to ensure the maintenance of contracted timber supply volumes.

Areas being assessed include Crown land, rainforest and areas of high conservation value old-growth exceeding 500 hectares and located adjacent to existing national parks and reserves. Logical management boundaries are also being considered. The Resource and Conservation Assessment Council stakeholders have been consulted about the principles to be used in the assessment and further stakeholder consultation is occurring as the exercise proceeds. Any negotiated outcome for increased reserves will not affect the green timber supply in the Upper and Lower North East Regional Forest Agreement. The outcome will also involve consultation with other interests in the land, including minerals and mining prospects, grazing licences—that was brought up in question time in the Lower House last week—occupation permits, Crown leases, Aboriginal interests and also access issues.

I am aware that the National Parks and Wildlife Service and environmental groups have nominated a number of areas which have been scheduled for harvesting, for consideration as part of the assessments. State Forests will attempt to avoid these areas in the interim, however, it has advised that where viable alternative compartments are not available because of weather conditions or species,

quality or volume requirements, those compartments will be accessed when necessary to meet timber supply commitments. It is also worth highlighting that the demand by mills for logs is currently at high levels. This high level of demand has required State Forest to work closely with customers to plan for [partners?? or compartments??] which will meet those customers' requirements. Our expansion in the log merchandising program, which is where State Forest directs harvested timber to best value end users to all north coast forests, should progressively improve the availability of logs to customers to best end use.

The Hon. RICHARD COLLESS: Minister, if some of those forests end up being converted, despite the Regional Forest Agreement, how do you propose to meet your 20-year wood supply commitments to the timber industry? I guess what I am really asking is: What is going to have priority; the pressure that is put on the Government by the environmentalists, or commitments to the 20 year wood supply to the timber industry?

Mr YEADON: Well, the Government has firm contractual obligations in relation to the supply of timber. They run, as you correctly said, for 20 years, and no-one in the Government has put to me that we will change those agreements.

The Hon. RICHARD COLLESS: What is the amount and value of the timber that is in, let us say, the Whian Whian Forest, for example?

Mr YEADON: I could not give you that off the top of my head. The Manager of State Forests indicates that its yield would be around 200 cubic metres per year.

The Hon. RICHARD COLLESS: What value would that be?

Mr YEADON: About \$40,000 all up.

The Hon. RICHARD COLLESS: A year?

Mr YEADON: Timber only.

The Hon. RICHARD COLLESS: Very well. Could you tell us what percentage of the New South Wales cypress timber comes from the Pilliga?

Mr YEADON: The commercial white cypress overwhelmingly comes from that viabelt region.

The Hon. RICHARD COLLESS: While you are looking for that, I might also ask if you can find what percentage of export cypress comes from the Pilliga?

Mr YEADON: I do not have precise figures, but a significant amount comes from that region, white cypress generally, and nearly all of it that goes to export would come from that region, with maybe a little bit from other areas, but for all intents and purposes it has the vast majority.

The Hon. RICHARD COLLESS: Are you concerned then about the Government's assessment of the Brigalow Bell south fire region, which could result in much of the Pilliga being closed off as national park? Are you concerned that that is going to stop that very important industry for that region?

Mr YEADON: Well, the Government is undertaking a regional forest assessment out there, as it has done in all of the other regions within the State—or at least most of them—that is certainly the upper and lower north east, the southern region and the south east region. We are now assessing the western region, and as has occurred in all of the previous areas that I mentioned, the Government goes through a process of assessment by interested agencies or agencies that have a stake, for want of a better word, in those areas and that activity. We also talked to stakeholders, and they have a formal role in the process.

The Hon. RICHARD COLLESS: They are not happy either, Minister. Are you aware of that? The stakeholders are not happy.

Mr YEADON: Well, there is a whole range of stakeholders around the table, and they will vary in their attitude as the process goes on. But the important point to make is that the process is there, and it is a tried and true process. If you think that it is not successful, then look at Western Australia, look at Victoria, and see how successful they have been in undertaking this process. New South Wales has a very proud record of removing conflict, creating large expanses of conserved area, and revitalising, retooling and ensuring that the timber industry maximises its value from public forests. We have been very successful, more than successful than any other State, in undertaking that process. That type of process is occurring in the western region, and we will just simply have to let that process take its course, but I am confident that we will get a good outcome for everybody in the western region, including the timber industry.

The Hon. ANTHONY KELLY: No decisions have been made yet.

Mr YEADON: No decisions have been made. We are still going through a process.

The Hon. RICHARD COLLESS: Minister, can you give us some insight as to why the Resource and Conservation Assessment Council [RACAC] might also be assessing private land in that process?

Mr YEADON: You would have to direct that question to the Minister for Planning, who has the RACAC as part of his portfolio.

The Hon. RICHARD COLLESS: We will.

Mr YEADON: They are not my organisation and therefore I am unable to comment.

The Hon. RICHARD COLLESS: Could you give us an indicator of how much of the forestry industry restructuring program money has been allocated to retrain forest workers in Wobbeggar, Baradine, Mandurah, Gulargambone, Gunnedah and the Narrabri districts in the event that some of the State forests in the Goonoo and the Pilliga become national park?

Mr YEADON: Well, as I said, that process is still ongoing. One of the key criteria of assistance is that a company or an individual has been affected by the Government's forestry conservation policies. No decisions have been made in relation to the western region that have impacted adversely at this stage, and therefore there is no flow of assistance. If a decision was to be made that had an impact on companies and/or employees, assistance would flow as it has in other regional forest assessments and agreements.

The Hon. RICHARD COLLESS: Minister, on page 9-23 under "Expenses," the last item is "Forest Industry Restructure Package", which was budgeted for \$48.9 million in 2001-2002, and revised to \$16.5 million. Why was that so much less than what was expected?

Mr YEADON: That funding was revised downwards from \$48.9 million to \$16.5 million largely due to the delays in the Commonwealth engaging with New South Wales in the resumption of the joint FISAP program. You may recall when Minister Tuckey was the Federal Minister for Forestry, we had a period of disjuncture—for want of a better word—between the Federal and the State Government, and the Federal Government withdrew for a period. I am happy to be able to say to you that that issue was resolved in June 2001 and we are back on track. Yes, that basically came about as a result of a parting of views between the two governments.

The Hon. RICHARD COLLESS: So, has the \$32.5 million that was not spent last year been carried forward to this financial year?

Mr YEADON: \$25.6 million of it, yes.

The Hon. RICHARD COLLESS: So, the actual budgeted figure for this year is about \$13 million, to make up the \$38 million. Is that correct?

Mr YEADON: \$38.9 million.

The Hon. RICHARD COLLESS: Where will that money be spent, do you know?

Mr YEADON: It will be spent in terms of the guidelines for the Forestry Industry Restructural Adjustment Program, and, as I said, the key criteria for that is whether you have been impacted upon as a result of Government decisions in relation to forestry and/or it goes into business development assistance.

CHAIR: Minister, you said that one job was created for each 50 hectares planted. Can you give me any indication how many hectares of hardwood, cypress and pine have been planted in New South Wales currently?

Mr YEADON: Pine is in fact a softwood, Mr Chairman.

CHAIR: I mean, cypress and softwood and hardwood.

Mr YEADON: And hardwood?

CHAIR: Cypress being softwood. Cypress is brought out independently, of course.

Mr YEADON: I am informed that it is around 6,000 hectares a year, but that is an average. It does vary year to year depending on availability of land, weather conditions and the like. That covers all of those areas you indicated.

CHAIR: Is that for hardwood or softwood?

Mr YEADON: Hardwood, softwood, but no cypress. We do not plant cypress. It is growing out in the western division, as some of the people here might confirm.

CHAIR: If some of these areas currently producing cypress for export or for local production are taken out of production, what is done to plant cypress plantations or allow private plants? What is done to encourage private cypress plantations, rather than using the public resource?

Mr YEADON: Well, there has been no outcome from the Western Region Assessment and therefore no decision in relation to supplementing has been made. There is no need to do it at this stage.

CHAIR: So, we are going to be relying on the public resource for the next umpteen years?

Mr YEADON: Well, I cannot answer that question. As I indicated earlier, the Regional Forest Assessment process is taking place, and until that is concluded I am unable to answer the questions that you are putting to me.

CHAIR: But surely some areas will be taken out of production if there is any evidence—

Mr YEADON: Well, that is an assumption by you, Mr Chairman. It may or may not be accurate.

CHAIR: What about using a precautionary principle and looking at the future cypress plantation?

Mr YEADON: Well, when the Government enters into its regional forest assessment it takes into account all of these issues. It takes into account the need to be cautious in relation to the environment. It takes into account the availability of such areas, or their incidence. Indeed, one of the hallmarks of the New South Wales approach has been to—this does not apply so much to the western region but to the earlier assessments that we did; most other States just simply took tree species as the criterion for reservation—under canopy map and reserve those species that had, in conjunction with them, the most rich conservation below the canopy level; in other words, fauna and other types of flora that existed below the canopy. In that way we maximised our conservation outcomes. So, we take that into account, but we also, in a regional assessment, take into account regional economies and regional

communities. All of those things are balanced on the basis of submissions and arguments put by both NGO stakeholders and indeed Government agencies.

The Hon. RICHARD COLLESS: I'm glad you've put that on the record because there are a lot of people—

Mr YEADON: It is not the first time it has been on the record. This Government has said since 1995 that it takes a balanced approach to these issues, it ensures it has conservation but it also ensures that it looks after regional economies and it gets the maximum value from its public resource. Now, before we started this process, mills were often using public native resource for low end use: palings and packaging. That is no longer the case because we provided the industry with the security and the financial wherewithal through the Forestry Industry Assistance Program to re-tool their operations into modern timber mills that maximised the value of the end timber product. Indeed, one of the central criterion for any business development assistance is—and this is monitored over time—a demonstrated ability to maximise their value adding components, so that those end products get the maximum value in the market.

CHAIR: Well, of course that makes sense. That should have happened for the last 50 years, but it has only been happening for the last seven years.

Mr YEADON: I wasn't around prior to that, Mr Chairman, I only arrived in 1995.

CHAIR: I understand that State Forests have a plan to eventually move entirely to plantations, and if you are not putting in cypress plantations now, they won't be able to do that for a very long time, so can you advise me about the long-term plans, or maybe Bob could, for pulling out of native, publicly-owned forest and moving entirely into plantations, because surely there is enough resource being created now to do that in about 15 years, is there not?

Mr YEADON: Well, in general terms that transition is occurring. Now, when it may be total, I do not know. That will be up to future Government and the community of New South Wales. But what we have done is ensured that there is adequate conservation in this State, protection of large tracts of our native forest and/or the ecosystems that go with them. We have also ensured that regional economies have remained robust in relation to those areas that have a timber harvesting presence, and we have put that in place. Now, what occurs at the end of the life of the current 20-year wood supply agreements, that is too far, I would suggest, for you and me to telescope into the future. The Government of the day will need to assess where they are up to at that time and what policies they adopt in relation to native forest logging.

CHAIR: We didn't think ahead 20 years ago, so hopefully we are thinking ahead now so that—

Mr YEADON: I think we are, Mr Chairman, there is no doubt. This is reflected in all of the policies of the Government and the activity of State Forest in the way we are developing plantations. We have been very innovative in that sense in that we have not just said, "Okay, let us go out and do plantations just simply for timber resource"; we have sought to maximise economic layers over timber production. In other words, not only does one get an economic return from timber, from growing a plantation, but we have also put in place, through legislation and practical policy implementation, other ways of value which turn on things like carbon sequestration and also salinity restoration. Particularly now, we are concentrating in the central division, where we believe we can bring those three economic layers together in a very, very qualitative way which will add to a fourth component of the policy, which is to provide diversification for farmers and the greater security of income for them as a result of that. I must say that those policies are rolling out very, very well indeed and this Government is very, very proud of them.

CHAIR: Well, can you then give an assurance to the people in the middle of New South Wales that if some of these areas are taken out of production, which may well happen, you will consider cypress plantations or another resource for the cypress?

Mr YEADON: I can tell you now that we are already, not on cypress pine in particular, looking at plantation development in the central region and that is along the three economic layers that

I spoke of as part of that. Over the last couple of years we have been undertaking hardwood trials, growth trials, right from the Queensland border down to the Victorian border, in the central regions, looking at those species of eucalypt hardwoods that provide the best growth rates in terms of soil and moisture composition, rainfall in other words, and also what species produce the best results for us in terms of salinity restoration.

CHAIR: What kind of a success are you having in Central New South Wales?

Mr YEADON: Quite encouraging actually, and some of the species, as I understand it, have surprised us in terms of their growth rates and their ability to deal with salinity.

CHAIR: So maybe either you or Bob Smith could give us some advice on just what the future is for plantations in Central New South Wales, which we are looking at currently.

Mr YEADON: Well, at this point in time, positive, indeed, very positive. As I say, we are developing an approach that has never, ever been undertaken, and the big difficulty with this area has been that in the past you had a community-driven campaign. I remember a few years ago that Angry Anderson, in conjunction with Channel 9, went down to the Murray region to undertake a weekend of planting. Now, that is a laudable program to see rolled out but it has fundamental flaws in that you get a whole range of species put in place and they are not always the appropriate species for the location. Often in those sort of publicised events where you get large numbers of people undertaking those programs, they have trouble finding seeds or saplings and therefore they give them stock that is inappropriate for that area. But more importantly, after everybody has left that weekend and gone home, all of the trees that have been planted do not get properly looked after and half of them perish. So, whilst that is laudable, it is fundamentally flawed.

This Government is saying, "Well, what we need to do is get some commerciality underpinning this proposition, we need to put in place layers of value," and I have spoken about three of them, and that attracts farmers into investing in this area. That is going to be the key to it: to get private property owners investing on a commercial basis to maximise their return off those three economic layers. But the beauty of it is that whilst they are making money, we, as a State, are dealing with some of our key environmental issues. The other one that I should add to salinity and carbon sequestration, of course, is soil erosion, which is another large issue in the central and western areas, and trees, of course, with their roots will help to arrest that as well.

So we are extraordinarily proud of this policy and we laud it as extraordinarily innovative and commercially underpinned. To me that is a first class policy, a much better deal than going out there, getting large amounts of taxpayer's money and/or community volunteer time that, whilst very, very laudable in its manifestation, more often than not does not produce the results that we really require at the end of the day.

CHAIR: How much do you need per hectare in the Murray Darling Basin for a large-scale plant, which I understand State Forests is interested in, but at a cost? How much would you get from carbon sequestration, and how much do you need for a large-scale—

Mr YEADON: Well, things like electricity retailer benchmark penalties, Mr Chairman, I would suggest that the price of those credits are going up every day.

CHAIR: But I do understand that State Forests have some figures on how much you need per hectare in the Murray Darling Basin. Could Bob Smith answer the question?

Mr SMITH: It depends on the rainfall, Mr Chairman. But on your first question, carbon at the moment is trading at about US\$10 a tonne. It appears to be the price that actually seems to be settling on.

CHAIR: Equals per hectare?

Mr SMITH: It varies again on the growth rates. In the highly productive country, we are getting 10 to 12 tonnes of carbon CO₂ per hectare. In some of the lower rainfall areas that goes down to three or four. So it varies.

Mr YEADON: Annually.

Mr SMITH: Annually, yes.

CHAIR: And the cost of planting a hectare in the Murray Darling, roughly, using these fast-growing species you are planting?

Mr SMITH: Again, it depends on economies of scale but our average is about an establishment of about \$2,200 per hectare.

CHAIR: So the actual carbon value of that is not very much, is it?

Mr SMITH: No, but do not forget that you have actually got the wood values, you have also got salinity benefits and biodiversity, and State Forest, as the Minister said, is trying to unpack all those values to improve the economics and also the social and environmental outcomes of the plantations.

Mr YEADON: That has been the issue, Mr Chairman, in that any of these areas economically in isolation do not get you to a critical mass where it becomes desirable for farmers, commercially, to undertake these plantings. That is why I am saying to you that we are developing these levels of economic layer and once all of those levels are in place it does become a commercial proposition. That is demonstrated in the fact that even international businesses have invested in carbon sequestration plantation and so forth in this State.

CHAIR: Going back to Murray Darling, do you have any sort of long-term plans for how many hectares per year you would like to plant out? I understand that State Forestry have a real interest in that.

Mr YEADON: Is that directed at me?

CHAIR: Either you or whoever can answer it.

Mr SMITH: Mr Chairman, yes, State Forests, as part of its charter of expanding its business in environmental planning, have actually had the target on the Murray Darling. We cannot give you the exact hectare figure but the Government recently announced a \$100 million program as part of the MAP funding in which we will plant about 33,000 hectares over the next seven years in the Murray Darling Basin. That is in addition to the State Forests normal establishment program associated with its pines plantations and also its eucalypt plantations. So we would be looking at something in the order of 6,000 to 7,000 hectares per year when we scale up in the Murray Darling Basin.

CHAIR: These will be commercial plantations, and renewable, and the money from those will be ploughed back in again presumably?

Mr SMITH: No, State Forests, again, to pick up the Minister's theme, is trying to unpack the various values. Some of the plantations will be grown purely for biodiversity and for salinity benefits. They will be non-traditional species to State Forests, say, acacia species, and they will be used for markets, potentially for bio-mass and other cellulose products that we currently have not developed. As I said, the previous speakers have talked about benchmarking the electricity industry; that will actually generate a lot of demand for plantations we normally have not had in the past.

Mr YEADON: I will just put in a rider there, Mr Chairman, in that the \$100 million that the Managing Director indicated was there, is dependent on the Federal Government contributing to that fund. I just make that point.

CHAIR: Dependent on the sale of Telstra, perhaps?

Mr YEADON: Well, no, it will be up to perhaps your colleagues in Canberra.

CHAIR: You or Bob Smith will be aware of the very high koala density in Pine Creek State Forest. I understand that State Forests are acutely aware of that and I guess you would be too, Minister.

Mr YEADON: Well, as a lay person, one of the things that intrigues me about that area is the forestry activity that has occurred there over an extraordinarily long period of time and, lo and behold, it is the area with the greatest concentration of koalas. I must add also that we have what I believe to be the country's leading koala management strategy in place in that area. It has been undertaken again in conjunction with negotiation and discussions with a whole range of stake holders, including environmentalists. I think that program is outstanding.

CHAIR: You would be aware that Whian Whian is in the catchment of Rocky Creek Dam, which is the water supply of Ballina and Byron. We have problems with future water supply, so I hope you would be aware of the impact of logging Whian Whian on the water supply of Byron Bay and Ballina.

Mr YEADON: Is it a negative or a positive impact?

CHAIR: Well, negative.

Mr YEADON: - I am not an expert in this area.

CHAIR: How can it be positive?

Mr YEADON: The literature I have read is very, very ambiguous in relation to water yields from catchment in relation to the presence of forestry. The last thing I looked at a couple of years ago, out of Victoria, indicated that the more forestry you grow the less water you get in the catchment dams and the like, because the forest actually drinks it before it gets there.

Mr SMITH: I gave an answer on Whian Whian before. I have been informed that they are actually doing some re-estimates of Whian Whian, and I would like to come back to the Committee with the revised estimates.

The Hon. MALCOLM JONES: Minister, you have made a point of saying how successful forests have been. You also said that we are getting the maximum value out of its resources, that the Government is very proud of its first-class policies, and that the timber industry has remained robust. Can you tell us how you have managed to turn around a \$107 million operating profit in 2000 to a \$44 million loss in 2001?

Mr YEADON: Perhaps you could identify the figures for me.

The Hon. MALCOLM JONES: Yes, certainly. The Budget Papers have only two pages on Forestry, being 9-22 and 9-23, so I have to go to the financial statement in your annual report, which is on page 58 above Mr John Kerin's signature.

Mr YEADON: We do not have the annual report with us, I am afraid.

The Hon. HENRY TSANG: I am happy to show you, Minister.

Mr YEADON: I will ask the Managing Director of State Forest to answer that.

Mr SMITH: This item refers to the way State Forest accounts for market value increment, for wood which is actually growing, which is not sold in the year, but is valued for our accounting purposes according to the market base. So as the market varies, the value of the standing wood changes from year to year. It is basically the market value increment and decrement that is actually picked up on that basis.

The Hon. MALCOLM JONES: Then, can you tell me what the profitability of State Forests has been over the last two years ?

Mr SMITH: Yes, I can. In 1999-2000 the State Forests operating profit was \$25.9 million. In 2000-2001 it was \$1.7 million, and this year it is forecast to be \$7.5 million. That is cash operating.

The Hon. MALCOLM JONES: What is the size of the overall asset, please?

Mr SMITH: I have not got it with me, but it is about \$1.3 billion.

The Hon. MALCOLM JONES: So, a \$1.3 billion undertaking owned by the people of New South Wales is realising a profit of \$1.7 million?

Mr SMITH: That is correct.

The Hon. MALCOLM JONES: Would you say it hardly justifies all the superlatives the Minister has been brandishing around today?

Mr SMITH: I think it does justify it. I think the accounts need to be kept in context. It does include the market value, so all the wood we actually have on the stump we are not able to sell at the given time; and there have been some issues associated with the management of the State Forests over the last couple of years where there has been heavy capital investment that has actually impacted on that profit.

The Hon. MALCOLM JONES: Even if we take the full projection of \$7.5 million, well in excess of a billion dollars, it is hardly a substantial return?

Mr SMITH: That is true.

The Hon. MALCOLM JONES: It is 0.07 per cent.

Mr SMITH: Yes, that is true, and I think it actually should be higher. I agree with you.

The Hon. MALCOLM JONES: The Minister said that the timber industry has remained robust. I would like to beg to differ on behalf of the residents of Gloucester and Stroud, as the first ones which roll off the tongue because they have been totally closed down under this Government's logging policies. Would you like to comment on that, Minister?

Mr YEADON: Yes, the industry had to be rationalised, as I said to you. There were a whole range of operators and many of them had outdated plant and equipment. A range of those people chose to exit the industry in light of the Government's forest policy. But make no mistake: this Government came to office in 1995 with a commitment to establish significant areas of conservation. It has fulfilled that commitment. It has created, I think at last count, about 1.6 million hectares of national park or otherwise conservation-reserved land in this State.

Once you create that level of land base within conservation, it is going to impact on areas that were previously available for timber. We quite explicitly came to office with that policy. It was always going to be the case that not everyone in the industry would carry forward. My earlier remarks were very much to the point that once the industry was rationalised it became very robust. It is not the same industry that existed prior to 1995 when they had antiquated plant and equipment. They were invariably selling their product into the lowest end markets, so, yes, there was rationalisation; but those that remain are robust and they are in the marketplace producing high value goods. If you doubt that I will arrange a tour for you to go around and visit some of them.

The Hon. MALCOLM JONES: We have just spoken about the profitability of State Forests, and Mr Smith agreed that it would be a bit generous to say that the return was less than adequate.

Mr YEADON: I think you need to understand that it is not all about profit. That is public estate that harvesting occurs on, or that it is drawn from. That industry has been conducted in this State for 200 years, in one way or another since 1916, but what I am saying is, though, that profit has not always been the criterion. Politics comes into this, in that this Government could have come to office and said, yes, there is not a big return from native forest logging, so we will simply wipe it out. But that comes back to my criterion for regional economies and regional communities; you cannot treat people like that.

The Hon. MALCOLM JONES: How much timber is being imported into New South Wales?

Mr YEADON: I think at last count, around the equivalent of \$2 billion per annum. That is across all areas, so in other words, cardboard, craft and the like, but timber-derived products.

The Hon. MALCOLM JONES: How much has that increased over the last 12 months?

Mr YEADON: I think it varies up and down depending on the market. I do not know if it has a long-term trend up or down, but I just know it is around \$2 billion to \$2.5 billion. That tells you something: that we are importing, invariably from forests that do not have the sorts of regulations that we have in place in New South Wales.

The Hon. MALCOLM JONES: Given the figures we have just discussed, is forestry becoming unfinancial in New South Wales?

Mr YEADON: No, as I said, we are doing a lot of work to put various value layers on top of native timber, if you like, not native forests but plantation forests, because we are in transition away from native forests, there is no doubt about that, to plantation. You need to look at this in segments, I think. There is a very different story between softwood returns and so forth, into what you would see in hardwood native timber.

The Hon. MALCOLM JONES: Surely the health of the industry should be reflected in the balance sheet? Surely if all these things are in place, as you say, the bottom line is that the profitability of the industry should be more robust, and/or the price of timber should be substantially less than it is currently.

Mr YEADON: No, we need to look at it on a broad basis. This is where some of the arguments vary. Environmentalists, for example, might say, and they do use this argument quite regularly, that there are not huge profits to be made from native forest logging, so let us shut it down. As I have just indicated to you, we import about \$2.5 million of forest-derived products every year. We could say, let us look after our pristine forest, shut it all down and not have any activity at all. Then we would simply have to import it all, and it would invariably come from Third World countries where there is no proper regulation. One of the reasons why there is price impact on these products is because they are coming from locations where labour is cheap, where regulation is non-existent and unconscionable exploitation takes place. You just simply cannot abrogate your responsibilities in relation to use and just say, well that is all right, we will let them go and rape and pillage the Third World. I do not believe in doing that.

The Hon. MALCOLM JONES: Minister, I would take the opposite view and say that at the moment forestry is—and I would welcome your comments on this—at a considerable disadvantage, because the land has been taken away from it and transferred to national parks, which is impacting on all areas of forestry, in the actual cost of the timber to the consumer, and in the bottom line of New South Wales State Forests.

Mr YEADON: That would just simply be on a volume basis.

The Hon. MALCOLM JONES: It has to be on a volume basis.

Mr YEADON: It is not an economy of scale equation, as I say. These other factors impact on price. It is not a volume question. Your approach would be right if it was a pure economy of scale proposition, but it is not, so that makes your argument flawed. It is not an economy of scale proposition. In other words, if you get double the land you make double the profit, or all of a sudden your margins will be higher, but they won't.

The Hon. MALCOLM JONES: Correct me if I am wrong, Minister. If forests had more turnover, more product, and the market is there because we have to import goods, is it not reasonable to assume there would be economies of scale and New South Wales State Forests would be more profitable?

Mr YEADON: No, it would be minor. There might be a minor increase by doing huge volume, but the cost in terms of environmental degradation would be unacceptable. I understand where

you are coming from, but I really have to say to you, with respect, that you have got hold of the wrong end of the ball.

The Hon. MALCOLM JONES: If we increase forest production, the degradation would be unacceptable?

Mr YEADON: That is right. Part of the regional forest assessment was to identify and reserve a minimum level of pre-1750 flora in this State. To undertake the sort of activity on the volume you are talking about would mean that we would have to go in and harvest those minimum levels of 10 or 15—

The Hon. MALCOLM JONES: What level was I talking about? I do not think I mentioned any level. I am just talking about the economics.

Mr YEADON: But in order to achieve the volume you have got to go into a wider landbase, which would impact on the minimum required conservation areas under the Regional Forest Agreement, which is a national policy.

The Hon. MALCOLM JONES: So, are the Regional Forest Agreements responsible for the lack of production and the lack of profits in forests?

Mr YEADON: No, no, they are not. The real answer to your question is plantation. In terms of economy scale and how you can map these things out to get the most efficient return on them, because plantations are planted by human beings and can be planted where you want them and the like. They are not planted over any terrain or dispersed the way they are in native forests. The are you need to concentrate on is plantation, and that is what we are doing. We cannot have the continued exploitation, or indeed, the escalated exploitation of native forests.

The Hon. MALCOLM JONES: But that is down the road, is it not?

Mr YEADON: No, it is current. We have significantly increased plantation area since we came to office in 1995, so it is partly occurring and it will continue occur.

The Hon. MALCOLM JONES: So it is okay then to increase the production from plantation? That will not degrade the terrain?

Mr YEADON: Well, it needs to be regarded as an agricultural crop. It is planted for the purpose of growing trees till it gets to the end of its life when you harvest it and you turn it into timber and sell it. So it is a crop. It is a long-term rotation crop but it is still a crop, and we do that on a sustainable basis. Plantations take the pressure off native forests, so it is good for the environment and it is good for the economics.

The Hon. MALCOLM JONES: For an industry as big and as important as forests, can you throw any light on why the budget papers have only two inadequate pages advising us of financial projections for the budget for forests?

Mr YEADON: State Forests, whilst it is not a full-blown State-owned corporation, is a Government trading enterprise. It is not a budget entity in that sense and therefore the information you seek is best sought from its annual report. That is where you will find far more comprehensive information.

The Hon. MALCOLM JONES: But the annual report does not have forward estimates.

Mr YEADON: You go to the budget for that.

The Hon. MALCOLM JONES: But that is totally inadequate. I am asking you why it is inadequate. You may not be able to answer that.

Mr YEADON: Or I may not think it is inadequate.

The Hon. MALCOLM JONES: There might be Treasury issues.

Mr YEADON: Just because you say it is inadequate does not mean I agree with you. How is it inadequate?

The Hon. MALCOLM JONES: Well, I table it, Minister, for your consideration.

Mr YEADON: Thank you.

CHAIR: We have come to an end of our allotted time. We will be putting some questions on notice, as I understand you. Will you be able to answer them in 35 days?

Mr YEADON: Certainly, Mr Chairman.

CHAIR: There may be a possibility of our inviting you or some of your departmental heads back. If that happens, we will specify which persons and which departments we would ask to come back.

Mr YEADON: I would appreciate that.

The Committee proceeded to deliberate.
