Briefing Notes: Meeting with Treasurer

SUMMARY

1) Forests NSW is making a loss on the operations of its Southern Regional Office - 06/07 about $3.3 mn after allowing for $2.2 million of head office costs attributable to the SRO.

2) Sawlogs subsidise the supply of pulplogs:
   The price of pulplogs is at 1989 levels in money terms - average price $11.86/tonne in 07/08
   The price of sawlogs has gone up 120% since 1989 - $57/cu m in 07/08

3) Since woodchipping began in 1969 the State is likely not to have made a profit. The chipmill has made $318 million before tax, $194 mn after tax.

4) Over the life of the 2 RFA's Forests NSW will support the chipmill by about $142 million in the form of low royalties. From 99/00-07/08 about $42 million. Comparison used: inflation indexed rates Vs actual rates.

5) The chipmill cannot pay inflation indexed rates for pulplogs - which would be $29.84/t in 08. The chipmill's breakeven point is about $23-$25/tonne.

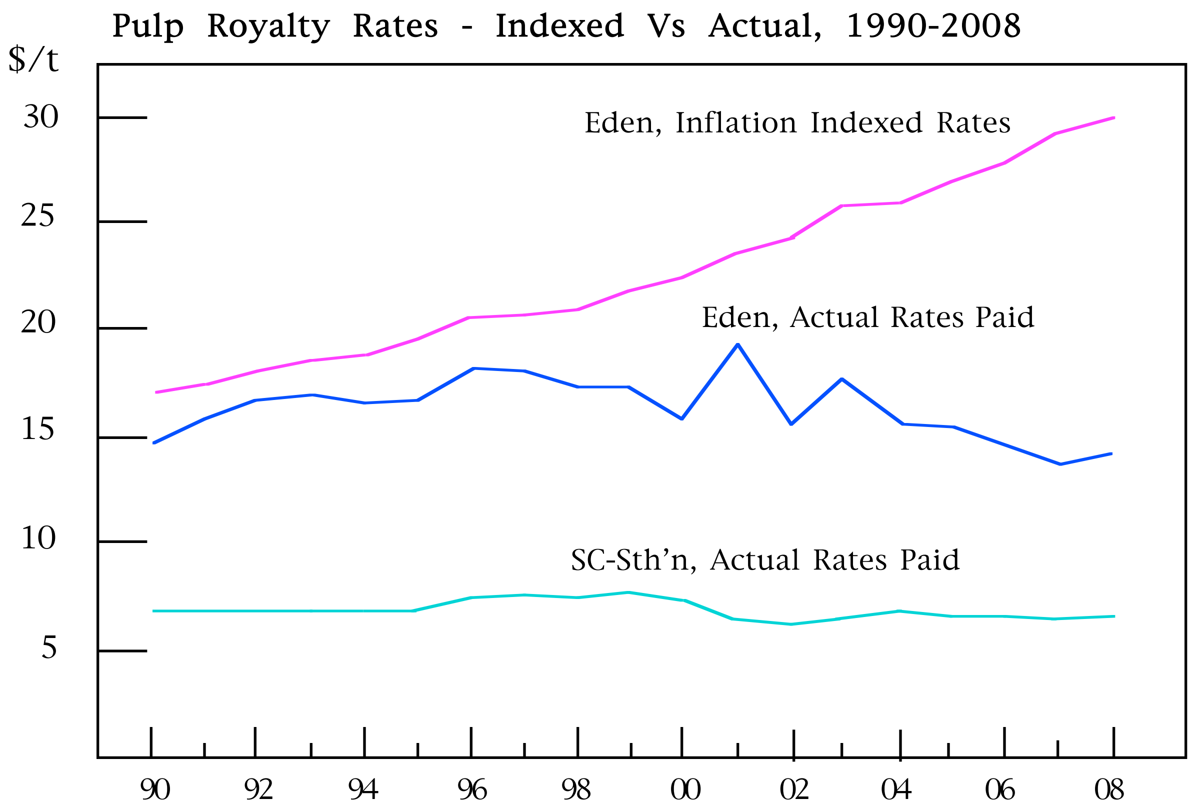
6) FNSW has become trapped by the chipmill in a high cost low price situation - as much of its focus is about supplying the chipmill with pulplogs.

Solutions

1) Stop woodchipping. Ask Eden chipmill for $40 million - compensation for low royalty rates.
   SEE GRAPH p2. Basis for asking - SEE p3.

2) Redeploy staff OR expand passive forest uses

3) Establish a native forests income scheme
   A percentage of the money from the ETS to be used to pay the holders of native forests - FNSW, National Parks and significant private landholders - for the carbon sequestration of their forests.



Indexed rates are calendar year. Actual rates are financial year.
Indexed rates were calculated from the Eden formula in the Wood Supply Agreement.

Royalty Payment Differences
Actual Royalty Rates Compared to Eden Indexed Rates

	07/08	99/00-07/08	90/91-07/08
	$ Mn	$ Mn	$ Mn
Eden	4.34	28.16	36.36
SC-Southern	2.22	12.82	21.06
Tumut	0.63	1.13	1.13
Total	7.19	42.11	58.55

Forests NSW was advised of these figures - to 06/07 - in a letter to the CEO dated 19 September 2008.

Basis for Asking

The $40 mn can be put to the chipmill using 2 main arguments:

1) Replacement cost was not covered by royalty payments - which only covered exploitation costs. They did not fully cover exploitation costs and are not covering exploitation costs now. See also Parliamentary Accounts Committee Report 1990 pages 75 & 76

2) The $42 mn difference between average Eden pulp royalty rates calculated from the Eden royalty rate formula compared to actual rates for Eden, South Coast-Southern and Tumut-Southern from 1999/00 to 2006/07.

Replacement cost was not covered by the royalty payments but is covered by the Timber Licenses, Wood Supply Agreements and can be inferred in the Memorandum of Association of HDA.

* Special License and Wood Supply Agreements for Eden
* Timber Licenses - for Management Areas in South Coast-Southern and Tumut-Southern
* Memorandum of Association of HDA - objects 1.02 (a) and (b) in combination with object 1.02 (k). It is made plain that HDA now SEFE was/is a primary producer of forest products.

A general condition of the licences and Agreements under which HDA operated required that the areas logged be regenerated to produce a high quality resource capable of a high sustained yield. Responsibility for the logging rests with HDA now SEFE. The Forestry Commission also has a large share of that responsibility as it was/is the forest manager.