HIGH QUALITY SAWLOG CONTRACTS IN THE STATE OF TASMANIA

Potential liabilities and impact on fiscal and financial sustainability

for

Wilderness Society
Life. Support.

The Wilderness Society (Tasmania)

by

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Executive Summary

Forestry Tasmania (FT) has traded as Sustainable Timber Tasmania (STT) since 2017. STT is the Tasmanian government-owned entity responsible for forest management and logging in Tasmania within the 'Permanent Timber Production Zone' (PTPZ). It operates as a Government Business Enterprise (GBE) and is an instrument of the Crown (the Tasmanian Government).

The forestry industry in Tasmania is not what it once was. Structural decline in the timber industry is long-running, including as a provider of employment. For example, there were more than 200 sawmills operating in Tasmania in the 1980s, compared to just 14 now.

The remaining sawmills collectively process approximately 115,000 m³ of high-quality sawlog per year, below the legislated quota of 137,000 m³ per year.[1] STT estimates a post-2027 yield of approximately 58,000 cubic metres, a sharp drop on current production.

The industry's decline is obvious, including in the number of industry participants and employment. Direct native forest jobs in Tasmania have fallen from 4,120 in 2006 to just 1,112 by 2018 (that is, to less than 1% of total employment in Tasmania). The industry faces additional significant headwinds, including changing demand and supply dynamics, declining industry financial sustainability and difficult global economic and market conditions.

The most recent annual report of STT for the year ended 30 June 2025 reports that the entity has made an accounting profit for each of the last eight years. This disclosure, however, masks underlying financial vulnerability. Indeed, without government subsidies and the significant positive asset revelation (after a decrease in forest value in the year ended June 2024), the entity may have traded at a loss.

Some sources suggest STT has operated at a financial loss on an underlying basis for much of the past decade, despite the annual report showing a thin surplus.[2] Economists estimate that the financial pressures for STT emanate from low prices triggered by the high supply quotas that have not been met. Looming supply shortfalls were raised with the government by the chairman of (then) Forestry Tasmania a decade ago.

STT is understood to be signing or renewing timber supply contracts with sawmillers to replace existing production and supply contracts that expire in 2027, through to 2040. The apparent signing of new contracts is happening alongside changes to the federal Environmental Protection Biodiversity and Conservation Act 1999 (EPBC) that come into force on 1 July 2027.

Uncertainty about the implementation and boundaries of the amended federal legislation is significant and yet to be settled. This uncertainty may not be resolved for some time.

[1] Forest Management Act 2013 (Tas) s 16(2).
[2] Sustainable Timber Tasmania (2025) Annual Report 2024/25.

Signing commercial contracts exposed to these changes at a time of heightened uncertainty about their implementation and effect is an unusual practice given the "significant and probable" risks arising, according to legal advice, unless there is significant mitigation in contract terms. This is not clear in public comments.

These federal changes come alongside what STT itself describes as difficult domestic and global timber market conditions. These include falling demand domestically and overseas, persistently low prices, increased costs and more intense overseas competition for the supply of timber.

Independent legal advice provided to Wilderness Tasmania by Benedict Coyne of Aspect Chambers indicates that "significant and probable risk arises to STT, the State of Tasmania and potentially the relevant Minister" for claims of compensation after "rushing … prematurely" to sign new or replacement supply contracts "prior to there being certainty" about how changes to the revised federal legislative regime from 1 July 2027 may affect the timber industry in Tasmania.

These risks could lead to compensation payments should STT be unable to meet any contractual obligations post-2027 under the new legislative regime. Over a contract term believed to run from 2027 to 2040, the undiscounted aggregate exposure could sum to between $155 million and $300 million under a medium risk scenario.

Better and worse potential supply shortfall cases also have been examined, which deliver smaller and larger financial exposures, respectively. These scenarios are described later in this document. Other broader associated risks are possible, including those of a reputational, operational and fiscal nature.

For STT, expenses associated with forestry management operations exceeded revenue received from customers in the year ended 30 June 2025. In addition, STT reported that sawlog output was nearly 20% below target last fiscal year, although this lower level of production is said to have "met customer demand".

The broader context is that the fiscal position of the Tasmanian Government, the entity ultimately responsible for the performance of STT, has been deteriorating. That is before additional liabilities that may arise are taken into account. The latest state budget papers predict persistent shortfalls of projected tax revenue over expected government spending and deficits throughout the forward estimates period out to 2028-29.

This means rising government debt - the state had zero net debt as recently as 2019. The state budget papers predict public debt rising to more than $10 billion by 2029, which is equivalent to 25% of the state's output (gross state production - GSP).

1. Introduction

The Wilderness Society (Tasmania) (WST) requested Optimal Economics Pty Ltd to undertake an economic and risk assessment of matters related to what is believed to be the signing of new and/or replacement timber supply contracts.

These contracts are needed for when the existing contracts between Sustainable Timber Tasmania (STT) and the fourteen sawmillers operating in Tasmania expire. Existing high-quality sawlog supply contracts between STT and sawmillers are understood to expire on 30 June 2027.

The matters examined in this report relate to:

- Risks arising from signing new and replacement supply contracts;
- Implications and risks for the sustainability of Tasmania's state budget; and
- Implications for the financial resilience of STT.

The broader context for this report is that recent reforms to the federal Environmental Protection and Biodiversity Conservation (EPBC) legislation enacted from November 2025 mean that, from 1 July 2027, the existing exemption for forestry activities will be removed. No other industry in Australia had enjoyed such an exemption.

This legislative change means that, for the first time, any forestry activities undertaken in Tasmania under replacement or new contracts will have to comply with both state and federal law, as well as any additional and relevant regulations. This presents as a significantly more complex regulatory and legislative regime.

The absence of visibility and public disclosures means it is difficult to be precise about contract negotiations that are reported to be underway. It is understood that STT is negotiating and signing supply contracts notwithstanding the risk that there could be significant changes to the operation of the timber industry in Tasmania from the middle of 2027 as a result of legislative change.

These changes come alongside what STT describes as difficult domestic and global timber market conditions. These include falling demand domestically and overseas, persistently low prices, increased costs and more intense overseas competition for the supply of timber. Recall that STT predicts a sharp drop in timber production after 2027.

A significant complication for this analysis is that the details of even existing contracts, including price, volume, term and any mitigation against risk and loss, are commercial in confidence and, therefore, are not in the public domain. As such, the analysis has been compiled after making a number of assumptions about the nature of contracts, which are explained in detail.

The economic analysis summarised here has been informed by the receipt of detailed written legal advice, which has been accepted at face value.

This report does not provide, and should not be taken as, legal advice.

2. Scope and statement of information relied upon

Matters addressed in this report

Wilderness Tasmania requested a report on matters associated with long-term logging contracts in the state of Tasmania related to high-quality sawlogs. The elements of this request relevant to the economic analysis and summarised in this report are:

- Implied risk to public finances and long-term fiscal sustainability;
- Public exposure in terms of potential compensation for surrendered contracts;
- Assessment of the condition of the Tasmanian budget; and
- Assessment of STT's financial resilience in the face of shifting supply, market and regulatory conditions.

Legal advice relied upon

Legal advice obtained by Wilderness Society (Tasmania) from Benedict Coyne, Barrister-at-law (dated, 10 April 2026) confirmed the following matters relevant to the economic analysis summarised here:

- The relevant parties believed to be engaged in signing new wood supply contracts are STT and the 14 sawmillers still operating in Tasmania;
- There is "significant and probable" liability arising from signing replacement or new supply contracts before the uncertainties associated with recent reforms to the EPBC Act are settled;
- The liability most likely falls upon STT and the Tasmanian government and, therefore, ultimately, Tasmanian taxpayers, in the absence of appropriate mitigation on the part of various contracted parties; and
- The precedent of the Victorian example of legal proceedings currently underway (explained later in this report) to settle supply shortfalls are a "cautionary tale".

As stated earlier, this report does not provide, and should not be taken as, legal advice.

Statement of information relied upon

The economic advice summarised in this report has been compiled independently and in good faith after reviewing information from the following sources:

- Detailed written legal advice from Benedict Coyne, Barrister-at-law;
- Correspondence from Hon. Felix Ellis, MP.
- Statements by Premier of Tasmania, Hon. Jeremy Rockliff, MP.
- Transcripts of Tasmanian Parliamentary testimony;
- Media articles and interview transcripts;
- Various research reports by the Australia Institute;

- Sustainable Timber Tasmania (STT) forecasts;
- Budget papers of the Tasmanian Government;
- An assessment of the state of Tasmania's public finances by independent economist Saul Eslake;
- STT's 2024-25 annual report;
- Financial statements of STT;
- Industry sources and information; and
- Optimal Economics estimates.

It should be noted that details of existing supply contracts expiring in 2027 are not available in the public domain, and nor are the details of any replacement contracts, if any, on grounds they are commercial in confidence.

Conclusions drawn in this report, therefore, should be read knowing that key information about contract details and particulars was not available to the authors. Optimal Economics and its associates have undertaken independent research and made informed assumptions to fill information gaps in the published sources.

3. Background and context

This section of the report outlines the background of the timber industry in Tasmania, including an assessment of current market conditions and the legislative framework under which the industry operates.

Forestry Tasmania (FT), which has traded as Sustainable Timber Tasmania (STT) since 2017, is the Tasmanian government-owned entity responsible for forest management and logging in Tasmania within the 'Permanent Timber Production Zone' (PTPZ). STT operates as a Government Business Enterprise (GBE) and is an instrument of the Crown (the Tasmanian Government).

Tasmania's forest management is governed primarily by the **Forest Management Act 2013** (Tas) (FM Act). Under this legislation, STT manages 812,000 hectares of Permanent Timber Production Zone (PTPZ) land in the state of Tasmania. This represents 12% of all land in the state (a total of 6.8 million hectares).

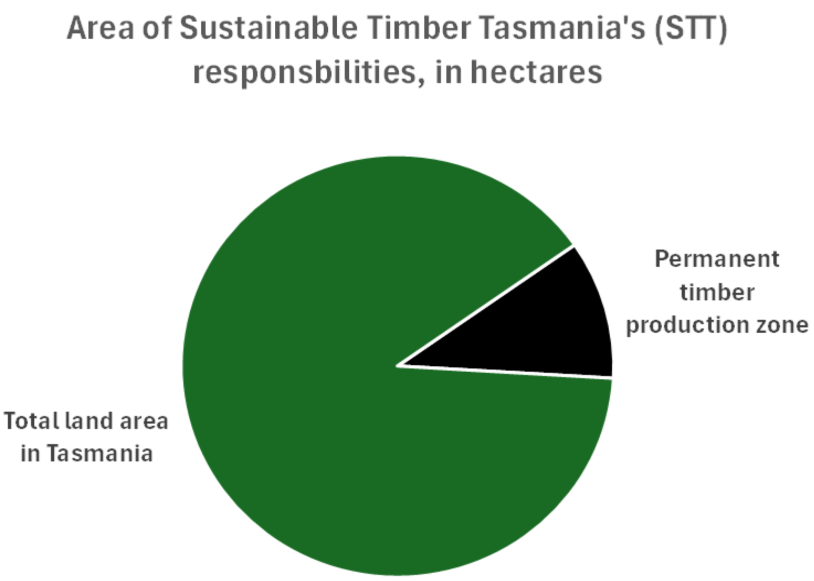
Terms of existing contracts are unclear

STT is understood to be signing and/or renewing timber supply contracts with sawmillers in Tasmania to replace existing production and supply contracts that are believed to expire in 2027. The fourteen currently contracted sawmills collectively process approximately 115,000 m^3 of high-quality sawlog per year. This is well below the legislated quota of 137,000 m^3 per year.

The terms of existing contracts between STT and sawmillers are commercial in confidence, with details on price and volume not in the public domain. The signing of replacement contracts, however, has been confirmed by evidence to the Tasmanian Parliament by the Premier, Hon. Jeremy Rockliff, MP, and in publicly reported comments from the minister responsible for STT, Hon. Felix Ellis, MP, Minister for Police, Fire and Emergency Management, Business, Industry and Resources and Skills and Jobs.

It also is not clear which parties are the major *customers* of the sawmills in question. Much of the timber is known to be exported interstate. This would be consistent with major customers being hardware and timber wholesale and retail suppliers, such as national brands like Bunnings and Mitre 10.

There also is known to be significant shipments of timber overseas, including to China. But, the precise details of the sales of timber cannot be verified because of the confidentiality of the contract terms.



Source: STT annual report, Optimal Economics.

Changes to the federal EPBC Act

Crucially, the apparent signing of new supply contracts beyond current expiry dates is happening alongside changes to the federal Environmental Protection Biodiversity and Conservation Act 1999 (EPBC) that come into force on 1 July 2027.

Uncertainty about the implementation and boundaries of the amended legislation is yet to be settled and may not be resolved for some time. This assessment is according to a recent radio interview by the relevant Federal Minister, Hon. Senator Murray Watt, Minister for the Environment and Water.

The Minister said in the same interview that his understanding, from his previous engagement with the industry as forestry minister, was that industry operations in Tasmania already were likely to comply with new federal regulations. "*… I was always assured by the industry that their practices meet very high environmental standards*", the Minister said, according to the transcript from his interview with ABC Radio Tasmania.[3]

This is despite STT never achieving Forestry Stewardship Council certification due to ongoing old-growth and threatened species habitat logging, STT facing ongoing compliance investigations by the regulator, as well as litigation from advocacy groups due to alleged illegal logging. A key implication of changes to the EPBC Act, which passed Federal Parliament in late November 2025, is the removal of the prevailing exemption for forestry activities in the previous legislation and the Regional Forests Agreement (RFA), which governs logging in Tasmania.

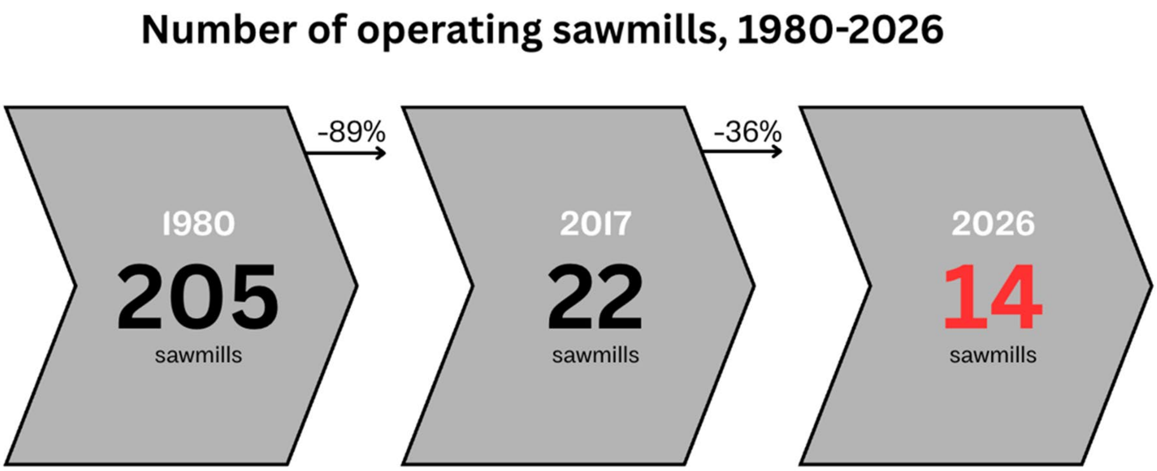
[3] ABC Radio Hobart (2025), Murray Watt on native forest logging, ABC Hobart Mornings, 28 November 2025.

Current challenges for Tasmanian timber industry

For now, given these legislative changes and uncertainties about implementation, there is a lack of clarity about the future of the Tasmanian timber industry over and above existing industry challenges. These include overseas demand and supply dynamics, industry financial sustainability and global economic conditions.

In particular, given ongoing and emerging challenges, including the recent constriction of global trade because of renewed conflict in the Middle East, there is uncertainty over the ability of the industry to honour supply contracts beyond mid-2027, under the new legislative arrangements.

The timber industry in Tasmania has been in decline for some time on most measures, including the number of industry participants and production volumes. It can be asserted that STT operates at an underlying financial shortfall each year, once payments from the government and significant positive revaluations of forestry assets are excluded. In fact, some sources suggest that STT has operated at such a loss on an underlying basis for much of the past decade, once these supportive additions are removed.[4]



Source: Downham, R. et al. (2019) ABARES National Wood Processing Survey 2016-17, Department of Agriculture, Australian Government, STT Annual Report, Graph prepared by Optimal Economics.

Economists have estimated that the financial pressures for STT emanate from low prices triggered by the high supply quotas that have not been met. This shortfall was made clear by FT a decade ago in correspondence with the Tasmanian Government. The broader context is that the Tasmania state budget also is under considerable pressure, with deficits predicted over the forward estimates, even under a relatively rosy assumed economic outlook. This means more public debt to be repaid over time by the taxpayers of Tasmania.

[4] Bakonyi, A. & Sanger, J. (2026). *Public Cost, Private Gain: How native forest logging failed Tasmania*, The Wilderness Society Tasmania.

Even before the new legislative and regulatory uncertainties, STT's own reporting shows that it has not been meeting the legislated supply quota of 137,000 cubic meters per year. The amount supplied in each of the last two years is just over 100,000 cubic meters. STT's own estimates show that output will halve in 2027 due to under supply.[5]

Legal advice obtained by Wilderness Tasmania indicates that locking in new supply contracts despite the additional legislative uncertainty has the potential to raise significant risks for a range of stakeholders. This includes sawmillers currently operating in Tasmania (currently just 14, down from more than 200 sawmills twenty years ago).

There also are potential risks raised for their customers, STT, the Commonwealth and Tasmanian governments and, ultimately, Tasmanian taxpayers.

The analysis summarised here has assessed these risks and, where possible, estimated the extent of implied liability.

Commonwealth EPBC Act Reform

Australia's primary environmental law, the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act), underwent its most significant reform in over two decades in late 2025. On 27 November 2025, the Albanese government, with the support of the Australian Greens, passed a suite of seven amending Acts, marking the first major overhaul of the EPBC Act since its enactment.

The central regulatory consequence for Tasmania's high-quality saw log industry is the removal, from 1 July 2027, of the existing exemption enjoyed by high-quality sawlog logging under the previous Regional Forest Agreement (RFA) framework. RFAs are long-term plans for the sustainable management and conservation of Australia's native forests.

There have been five RFAs operating in three states: three in New South Wales and one each in Western Australia and Tasmania. The five Victorian RFAs were terminated on 31 December 2024, following the Victorian Government's decision to cease high-quality sawlog forestry in that state.

Since 1997, the RFAs, negotiated between the Commonwealth and states, effectively have exempted native forest logging from federal environmental approvals.

Federal Environment Minister Murray Watt has stated that the government does not intend to end native forestry entirely and that RFAs will remain.6 This may be because the agreements serve purposes beyond regulating extraction of timber for supply to sawmills. The RFAs may be extended beyond current expiry dates and be required to meet the new standards.

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[5] Sustainable Timber Tasmania (2022) Sustainable High Quality Eucalypt Sawlog Supply from Tasmania's Permanent Timber Production Zone Land, July 2022.
[6] ABC Radio Hobart (2025) Murray Watt interview, 28 November 2025.

The Minister indicated that day-to-day forestry approvals would remain with the state government, while stronger federal oversight would be introduced.[7] However, the National Environmental Standards have not yet been finalised. This additional complexity and potential duplication create industry and stakeholder uncertainty as to what effective operational constraints will apply from mid-2027. Tasmanian Minister for Resources Hon. Felix Ellis, in correspondence with the Wilderness Society dated 17 March 2026, acknowledged 'the full impact of these reforms cannot be assessed until the Australian Government finalises the standards, guidance and transitional arrangements.'[8]

Difficult timber market conditions

STT's latest annual report alluded to difficult market conditions, stating that:

> *"…. market conditions remain challenging, particularly due to reduced demand for domestic sawlog and veneer logs – largely a result of a soft housing construction sector and broader economic uncertainty …"*[9]

STT's 2022 resource review projects that native forest sawlog supply will fall to approximately 58,000 m³ per year from 2027-28. This is a 58% reduction against the legislated minimum of 137,000 m³.[10] STT's 2025-26 Statement of Corporate Intent acknowledges "a significant reduction in native forest resource volumes post 2027" and states that "the sale of hardwood plantation logs will be critical to the organisation's long-term financial viability."[11]

Tasmanian forestry production per sector, in comparison to Australian output per sector.

	Tas Volume (million m³)	Tas Volume %	Australia Volume (million m³)	Tas % of national output
Native Forests	1.013	22%	2.228	45%
Hardwood Plantation	2.135	46%	7.133	30%
Softwood Plantation	1.518	33%	13.740	11%
Total	4.666		23.101	

Source: Bakonyi, A. & Sanger, J. (2026). Public Cost, Private Gain: How native forest logging failed Tasmania, The Wilderness Society Tasmania

[7] Ibid.
[8] Ellis, F. (2026) Letter to Hugh Nicklason, 17 March 2026.
[9] STT (2025) Annual Report 2024/25.
[10] Sustainable Timber Tasmania (2022) Sustainable High Quality Eucalypt Sawlog Supply from Tasmania's Permanent Timber Production Zone Land, July 2022.
[11] Sustainable Timber Tasmania (2025) Statement of Corporate Intent 2025-26, Sustainable Timber Tasmania.

Tasmania is, by a significant margin, the largest native high-quality saw log jurisdiction remaining in Australia. Tasmania accounted for 40% of all high-quality sawlog forest log volume nationally, prior to Western Australia and Victoria's respective exits from native logging in early 2024.

Nationally, 88% of all log volume harvested in Australia came from commercial plantations, with this number significantly increasing since the closure of activity in other states.[12] Tasmania is now the only jurisdiction in Australia continuing large-scale native eucalypt forest logging on public land.

Employment

The structural decline in the industry is long-running, including as a provider of employment. A 2018 industry-commissioned report estimated that direct native forest jobs in Tasmania had fallen from 4,120 in 2006 to just 1,112 by 2018 (that is, less than 1% of total employment in Tasmania).[13] STT's most recent annual report indicates that the organisation had 170 employees in the year to June 2025, a full-time equivalent of 162 employees.[14]

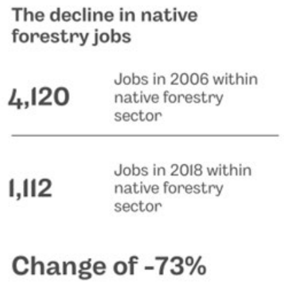
A pre-election statement from the Premier of Tasmania indicated that the industry had a larger employment footprint, but these estimates have been unable to be verified separately.

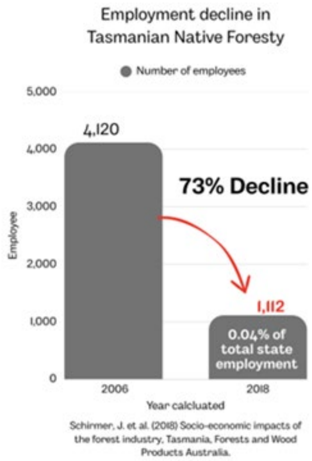
Minister Ellis claimed (in the joint media release) that 5,700 jobs were "supported" by the industry. But the term "supported" has broad implications, and the numbers can vary widely.[15] For example, it could include food suppliers providing meals to timber workers, or cleaners and other such service providers. It is not clear to which sectors of the economy and job market the Minister was referring to. Actual employment in timber extraction is far lower.

Indeed, jobs in forestry account for less than 1% of all employment in the state (down from 2% in 2006) covering growing, harvest, haulage and primary processing. The most recent 2021 Census recorded just 885 people working across all forestry and logging in Tasmania, including plantation operations.[16]

The domestic timber market shows clear structural movement towards plantation timber at the expense of native forests. In 2004, high-quality sawlogs accounted for 74% of Tasmania's total forestry output; by 2024, their share had fallen to around 22%.

[12] Australia Institute (2023) Q&A: Native Forest Logging in Tasmania, The Australia Institute, May 2023.
[13] Schirmer, J. et al. (2018) Socio-economic impacts of the forest industry, Tasmania, Forests and Wood Products Australia.
[14] STT (2025) Annual Report 2024/25.
[15] Tasmanian Liberal Party (2024) Keeping Tasmania's Forestry Industry Strong, Media Release, 29 February 2024.
[16] Australia Institute (2023) Native Forest Logging in Tasmania: The Facts, The Australia Institute, 17 August 2023.



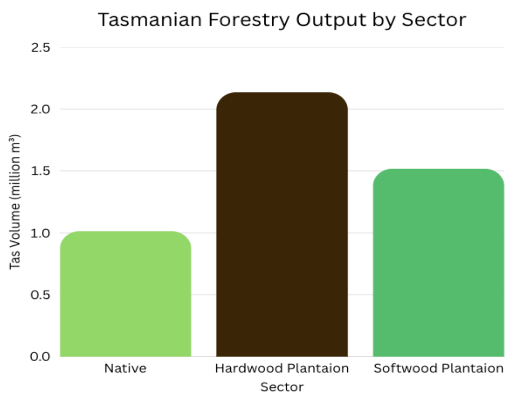


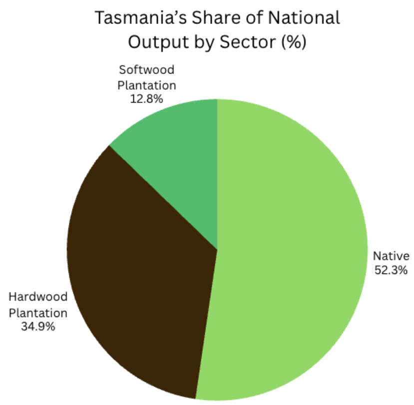
Economic headwinds

The headwinds facing the forestry sector in Tasmania already helps to explain why the sector has been in relative decline in recent decades and why financial performance has been deteriorating. Already, as a result of falling returns, resources, both labour and capital, have been diverted to more productive sectors of the economy, including plantation timber and eco tourism.

Globally, China has received over 60% of Australian hardwood chip exports since 2018 but has been transitioning away from woodchips toward importing wood pulp directly.[17] Chinese hardwood chip import volumes from Australia had fallen to nearly half their 2018 levels by 2023. The average export price for Australian hardwood chips fell by a further 5% in the second half of 2025, with China-bound shipments down 3%.[18]

ABARES projects the value of production of Australian forestry production to flatline at $2.1 billion from 2025-26 through to 2030-31, down from a peak of $3.4 billion in 2018-19 (in real terms) with hardwood production in long-term decline.[19]





Source: Bakonyi, A. & Sanger, J. (2026). Public Cost, Private Gain: How native forest logging failed Tasmania, The Wilderness Society Tasmania. Chart prepared by Optimal Economics.

[17] ResourceWise (2024) *Navigating the Shifting Currents of Australia's Hardwood Chip Sector*, ResourceWise Forest Products Blog, September 2024.
[18] ResourceWise (2026) *How China's Pulp Overcapacity Is Impacting the Australian Wood Chips Market*, ResourceWise Forest Products Blog, 3 March 2026.
[19] Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) (2026) Agricultural Commodities Report: March Quarter 2026, ABARES.

4. Implied risks and liabilities

This section of the report refers to risks associated with signing new timber supply contracts in Tasmania ahead of scheduled new federal legislative arrangements from July 2027. These risks include those associated with potential compensation payments made to affected parties should supply contract arrangements not be met.

The private legal advice provided to Wilderness Tasmania indicates that "significant and probable risk arises to STT, the State of Tasmania and potentially the relevant Minister" for claims of compensation after "rushing … prematurely" to sign new or replacement supply contracts "prior to there being certainty" about how changes to the revised federal legislative regime from 1 July 2027 may affect the timber industry in Tasmania.

This legal advice is conditional on there being no appropriate mitigation by parties in the new contracts. This is unknown given the nature and details of any new contract is commercial in confidence. It follows, however, that if there is sufficient mitigation - which may be determined only after the fact and once the contract details are known - liability arising may, in fact, be zero.

Notwithstanding whether there may have been appropriate mitigation of the nature referred to in the legal advice and in this document, significant and probable_risks are likely to arise, and can be summarised as follows:

- **Compensation risk** to contracted parties;
- **Financial risk,** including to contracted parties, their workers and families and affected communities;
- **Fiscal risk** to the governments of the Commonwealth and state of Tasmania and, ultimately, Tasmanian and Australian taxpayers;
- **Operational risk** to STT, sawmillers and others participating in the industry;
- The risk of assets and infrastructure being **stranded,** including commercial assets like sawmills and equipment;
- **Development risk** in the state of Tasmania;
- **Reputational risk** for the Tasmanian and Commonwealth governments; and
- Implied **sovereign risk** for parties and investors engaged with Australia and the state of Tasmania.

Each potential risk is considered in detail below.

Potential compensation for surrendered contracts

The contracted volumes per sawmill are not publicly available because STT has maintained commercial confidentiality over its wood supply contract agreements. Similarly, there is no visibility for this exercise of future timber supply contracts that are believed to be under negotiation and/or been signed.

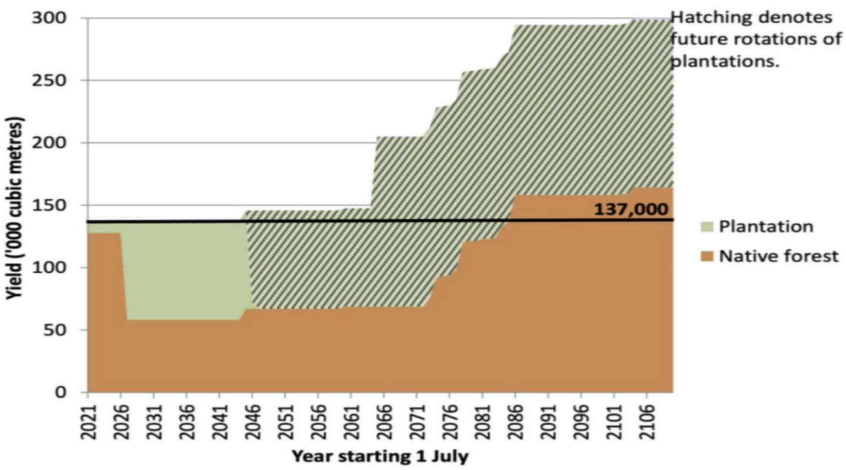
A critical uncertainty arising from the regulatory transition is what compensation would be required, if any, should STT be unable to meet any contractual obligations post-2027 under the new federal legislative regime. As a start, where contracted volumes cannot be delivered, the FM Act provides a statutory entitlement to compensation.

Review of High-Quality Eucalypt Sawlogs Sustainable Yield in 2022

The following scenario analysis is representative based on industry known and understood timber harvest volume and price variables. The calculations under each scenario below should be treated as an indicative order-of-magnitude estimates. There are three scenarios presented, representing a high, medium and low output case, respectively.

- STT currently delivers approximately 115,000 m³ of native sawlog per year (below the legislated annual quota of 137,000 m³).
- STT estimates a post-2027 projected yield of approximately 58,000 m³. This assessment is based on STT's 2022 review of sustainable high-quality eucalypt sawlog supply from the Permanent Timber Production Zone, which superseded earlier modelling.[20]
- Under the assumed medium scenario, this produces an annual estimated shortfall of supply of approximately 57,000 m³ relative to current production.
- Applying the midpoint indicative price from industry sources of $210 per m³ produces an annual gross compensation exposure of approximately $12 million per year.
- Over a contract term believed to run from 2027 to 2040, the undiscounted aggregate exposure on volume sums to approximately $155 million.
- Discounted at a standard government bond interest rate of 7%, the present value of this estimated supply undershoot is $100 million over the estimated contract period.

Review of High-Quality Eucalypt Sawlogs Sustainable Yield in 2022



Source: Bakonyi, A. & Sanger, J. (2026). Public Cost, Private Gain: How native forest logging failed Tasmania, The Wilderness Society Tasmania

[20] Sustainable Timber Tasmania's own 2022 statutory review, *Sustainable High Quality Eucalypt Sawlog Supply from Tasmania's Permanent Timber Production Zone Land,* Review No. 6 (July 2022).

To account for the uncertainty associated with the extent to which federal reforms will constrain STT's post-2027 harvesting capacity, two additional volume reduction scenarios are presented below. They represent the low and high scenarios to complement the medium scenario presented above.

A 25% reduction from current production (representing a more modest regulatory impact) implies a post-2027 timber delivery of approximately 86,250 m³ and an annual shortfall of 28,750 m³. This would deliver a potential annual gross compensation exposure of approximately $6 million. Discounted at 7% over the contract period, the present value of this exposure is approximately $50 million.

A larger 75% reduction (representing a more severe regulatory constraint) implies a post-2027 timber delivery of approximately 28,750 m³, an annual shortfall of 86,250 m³. This generates a potential annual gross compensation exposure of approximately $18 million, with a present value of approximately $151 million over the contract period.

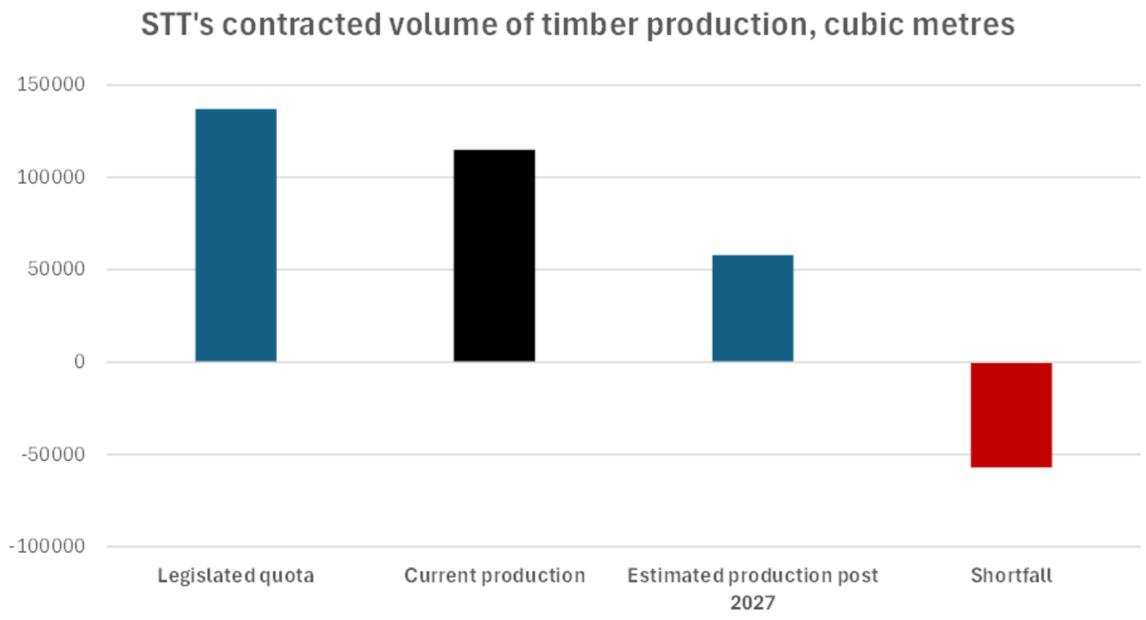
Scenario	Annual Shortfall	Annual Exposure	Undiscounted Total	Exact PV	Rounded
25% reduction	28,750 m³	$6,037,500	$78,487,500	$50,459,316	**~$50M**
50% reduction	57,000 m³	$11,970,000	$155,610,000	$100,041,079	**~$100M**
75% reduction	86,250 m³	$18,112,500	$235,462,500	$151,377,949	**~$151M**

Source: *Optimal Economics Calculations*

These rule-of-thumb compensation calculations exclude estimates derived from any other consequences, including:

- consequential losses such as lost processing margin and downstream customer contracts;
- substitution losses arising from the inferior quality plantation logs relative to high-quality sawlog category 1 sawlogs;
- mill retooling costs;
- contractor and worker transition costs; and
- potentially stranded public infrastructure.

These exclusions mean the figure represents a floor of exposure, not a ceiling.

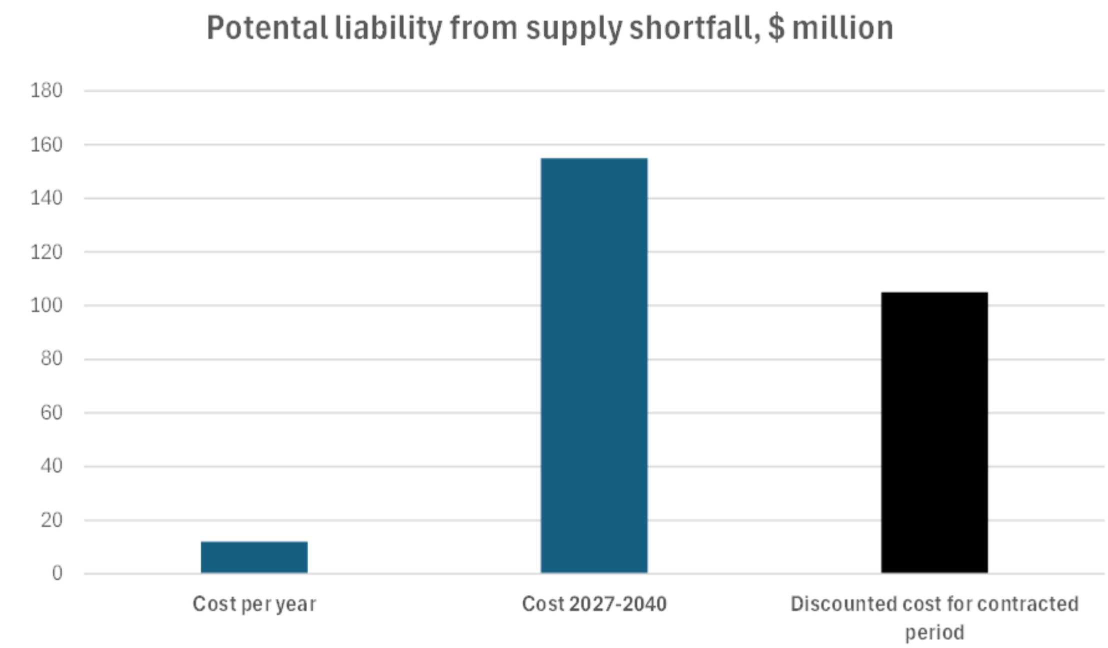


Source: STT and Optimal Economics

Possible applicable examples

As an indication of the order of magnitude level of potential liability, two pieces of information may be relevant.

- First, the potential $300 million of industry restructuring funds provided by the Commonwealth Government (much of it earmarked for Tasmania, according to federal environment Minister the Hon Murray Watt, MP); and
- Second, the roughly $400 million legal matter underway in Victoria over the failure of sawmillers to deliver sufficient timber supply for paper-making.



Source: STT and Optimal Economics

Other broader risks

The following assessments about broader risks that may arise can be made. Again, the confidential nature of supply contracts and lack of evidence of appropriate mitigation, if any, means it cannot be determined whether each, or any, of these risks apply.

Financial risk

Financial risk relates to changes in financial circumstances for industry participants, including sawmillers, their employees and their families and ancillary suppliers supporting the industry. This includes:

- Revenue foregone - parties engaged in the industry could suffer material lost revenue if contract terms are not met, especially in regards to the volume of timber produced. There also could be adverse price effects, although the reverse could be true if supply is short.
- Additional cost, including:
  - There could be unexpected and additional compliance costs under the new legislative regime. As government officials have been indicating, the details of the new regime are still being determined. The additional compliance burden could become heavy and, therefore, costly.
  - Duplication of compliance and regulation - as per the above point, from 1 July 2027, industry participants will have to comply with both state and Commonwealth regulatory regimes. The revised details of each are yet to be settled.
  - Increased complexity and cost - wherever the new regime settles, there probably will be additional complexity and uncertainty, especially in the early stages. Complexity and uncertainty increase business costs.

There also could be adverse financial impacts on those directly and indirectly associated with the timber industry in Tasmania. While the reported workforce directly engaged in timber harvesting and production is small, an inability to be commercially viable would have a direct financial impact on these workers' incomes and, by extension, the financial welfare of their families.

Fiscal risk

Fiscal risk includes adverse risks to the state budget, potentially leaving Tasmanian taxpayers with higher debt to repay over time. This carries with it the risk of credit rating downgrades and, therefore, higher debt service costs over time. A larger budget shortfall usually means less funds will be available for other government service provision, such as those related to hospitals and schools.

There also maybe a fiscal risk to the federal budget. Minister Murray Watt already has confirmed that $300 million of federal funds has been made available for industry adjustments and retooling nationally. The Minister said on ABC Radio Tasmania last

November that "you could be confident a very substantial portion of that $300 million will go to Tasmania."[21]

Operational risk

Operational risk relates to direct implications of changes for industry participants.

- For example, STT currently maintains approximately 10,000 kilometers of public forest roads, many of which are accessed only because of active logging operations in their vicinity.
- The network carries a book value of approximately $65 million as per the Infrastructure Tasmania State Roads Audit 2016. STT's annual report also highlighted that 3,040 km of existing roads were maintained in the 2024-25 financial year and 24 km of new roads were constructed.
- BITRE estimates the average cost of road project costs were AUD$5.1 millionper lane-km. Average costs vary significantly by road standard. The average cost of urban and rural freeways / highways was $6-6.5 million per lane-km, while rural arteries were around $3 million per lane km (figure calculated by Optimal Economics applying BITRE's benchmark).22
- Using BITRE's national road construction cost benchmarks (the most recent available data), at the average across all road types of AUD $5.1 million per lane-kilometre, a single-lane 24 km road equates to approximately $122 million.23
- Applying the lower rural arterial benchmark of AUD $3 million per lane kilometre (the most appropriate standard for remote forest access roads), the estimated cost falls to approximately $72 million. These figures are in 2018 dollars.
- Applying BITRE's own Road Construction and Maintenance Price Index, which has risen by 37.5% since 2015, the inflation-adjusted range in today's dollars would be approximately $98.5 million.

In the event of a major reduction in logging volumes, large portions of this network may no longer be commercially justified or even needed. There may be alternative motivations for road usage (ie. tourism), but this could be negligible compared for uses like forestry and fire management.

Without viable commercial logging activity, the ongoing maintenance costs could continue to fall on the government, but without the commercial activity and revenue that gave rise to the infrastructure.

Stranded asset risks

Change creates a form of 'stranded asset' liability. For example, public roads that cannot be decommissioned (as they provide potential recreational and emergency access) but also cannot be commercially justified. The cost of either maintaining or decommissioning this infrastructure represents a real fiscal cost to

[21] ABC Radio Hobart (2025) Murray Watt on native forest logging, 28 November 2025.
[22] Bureau of Infrastructure, Transport and Regional Economics (BITRE) (2018) Road Construction Cost and Infrastructure Procurement Benchmarking: 2017 Update, BITRE.
[23] Ibid.

taxpayers that must be factored into any assessment of the true long-term cost of the high-quality sawlog logging industry.

There also could be stranded commercial assets such as idle sawmills and associated infrastructure. In the absence of a viable commercial industry once the new legislative changes come into force, it could be difficult to yield significant value for any sale of these stranded assets, if at all.

Development risk

Development risk relates to adverse implications for other activities in the state of Tasmania, including those unrelated to forestry management, that may arise owing to developments within the timber industry. For example, if extraction of timber becomes even less economic in the state, other industries may be starved of capital and labour. Critical mass could be lost, particularly in non-urban areas, and associated services could diminish.

Also, the effect of signing long term contracts could be slowing economic transition to more long term sustainable activities by providing contractual support to a sector in structural decline. This is not a productive use of capital and, in particular, taxpayers' funds if the public purse is used to support struggling industries.

Decreased investment in one sector over time could prove to be a disincentive for investors to engage in other sectors of the economy. This could even extend to activities designed to reduce the state's carbon footprint.

Reputational risk for the state

There could be additional delays associated with increased complexity of the regulatory and legislative landscape, including between jurisdictions. Investors could become less inclined to engage with Tasmania if this additional complexity resulted in higher cost and longer approval timeframes.

Implied sovereign risk

Implied sovereign risk applies to those engaged with, or intending to engage with, the state and national governments. In the extreme, such risks relate to the spectre of nationalisation of private assets, infrastructure and funds, something not usually associated with an Australian jurisdiction. Such a risk, though, often is a matter of perception as well as reality, and can prove to be a major deterrent, particularly for foreign investment.

Mitigation

Recall that the legal advice obtained to inform this economic exercise based the significant and probable risk of liability on the extent to which parties had taken steps to mitigate such risk. The legal advice received indicates that "it would be prudent and arguably required … by the GBE Act" for participants to "take all reasonable and possible protective steps to mitigate the potential compensation claims out of the public purse".

Such mitigation could take the form of, but is not limited to:

- insertion of appropriate adaptive and/or contingency and protective clauses in contracts; and
- it also may be prudent for parties to consider contracts of shorter duration to take account of the heightened uncertainty.

In addition, Tasmanian Premier Hon. Jeremy Rockliff MP has cited as "mitigation" that the government had opened up timber reserves, which represents 52% of state land.[24] The implication here is that timber from these reserves can be used to fulfil any shortfalls of contracted supply. This proposition, however, has not been tested as part of this analysis.

[24] Tasmanian Liberal Party (2024) *Keeping Tasmania's Forestry Industry Strong*, Media Release, 29 February 2024.

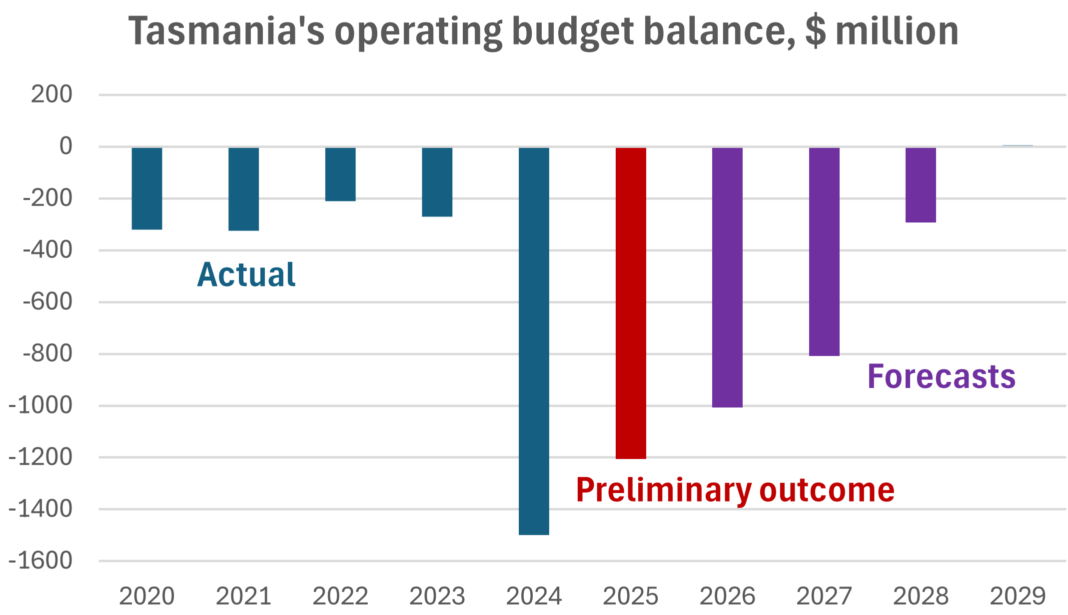
5. Tasmania's deteriorating fiscal position

The legal advice used to inform this exercise found that the most probable liability from actions described here accrue to the state of Tasmania. Ultimately, this means any financial cost could fall on the Tasmanian budget and, eventually, the taxpayers in the state.

This at a time when the finances of most governments, including the state government in Tasmania, are under pressure from compressed tax revenues and greater demand for spending on public administration and service provision.

Tasmania's current fiscal landscape can be characterised as follows:

- Operating deficits are forecast for most of the forward estimates period;
- Rising public debt to approach 25% of GSP - an expected doubling of nominal debt by 2028-29;
- Diminishing fiscal buffers; and
- The nation's equal lowest credit rating (alongside Victoria).



Source: 2025-26 Budget papers.

Tasmania's fiscal position is deteriorating

The deterioration in Tasmania's fiscal position has been long-standing, having started before COVID, although the impact of the pandemic accelerated the fiscal decline. This fiscal deterioration in Tasmania is before any additional possible and contingent liabilities from the activities described in this report are acquired. This bleak fiscal reality means the state has slim fiscal buffers, if at all. This leaves the state vulnerable to unexpected shocks by limiting the government's ability to respond.

Governments need fiscal buffers, which need to be built in happier economic times, in order to be in position to respond to adverse circumstances as they arise. Persistent budget deficits and rising public debt move the state's finances in the opposite direction. Also, having to commit increasing public funds to debt servicing leaves less funding for worthy purposes like hospitals and schools.

The government's fiscal position is deteriorating. The most recent budget papers predict persistent shortfalls of projected tax revenue over expected government spending. The budget papers project recurrent deficits throughout most of the forward estimates period out to 2028-29. The Budget papers include an expectation of rising government debt. Tasmania had zero net debt as recently as 2019, but the metric now is projected in the budget to be 25% of state output within the forward estimates period.

Key Fiscal Indicators - Tasmanian Budget position

Fiscal Indicator	2024-25 Preliminary Outcome	2025-26 Budget	2028-29 Forward Estimate
Net Operating Balance (deficit)	($1,205.3m)	($1,008.0m)	$5.6m
Fiscal Surplus/(Deficit)	($1,339.8m)	($1,352.1m)	($152.4m)
Net Debt at 30 June	$ 5,044.3m	$7,081.1m	$10,397.4m
GFS Net Debt at 30 June	$ 3,960.3m	$6,030.7m	$9,553.3m
Infrastructure Investment	$ 772.5m	$893.7m	$779.6m

Source: Tasmanian Budget 2025-26, Budget Paper No. 1, Table 1.1

Independent economic assessment

The deterioration of Tasmania's budget position has been well-known in the public domain for some time. For example, independent economist Saul Eslake concluded in his 2024 assessment of the state's public finances that:[25]

> *Tasmania's public sector finances have deteriorated significantly since the latter part of the 2010s – despite a noticeable improvement in Tasmania's economic fortunes, by many metrics, relative to the rest of Australia between about 2016-17 and 2021-22.*
>
> *That deterioration, best evidenced by the shift in all of the principal measures of the government's budget 'bottom line' from balance or surplus in the mid-2010s to persistent and (for the most part) growing deficits since 2018-19, and the government's shift from net creditor throughout the 2010s to a net debtor from 2020-21 onwards.*

[25] Eslake, S. (2024). Independent Review of Tasmania's State Finances. Corinna Economic Advisory, August 2024.

> *These trends were partly attributable to the Covid-19 pandemic, and more recently to the need to provide for compensation payments to survivors of child sexual abuse in State institutions. But they began before the onset of the pandemic, and have continued after it.*
>
> *The Review finds that the deterioration in the financial position of Tasmania's 'general government sector' …. over the past decade is entirely attributable to 'policy decisions' by the government (to increase 'operating' or recurrent expenses, and spending on infrastructure projects, and to a lesser extent to reduce taxes).*

Mr. Eslake went on to say that:

> *… Tasmania's state public sector finances have for some time been on an unsustainable trajectory – and that in the absence of corrective policy actions the condition of Tasmania's state finances will inevitably and inexorably deteriorate further.*

Since August 2024, when this report was submitted, the state government has taken some steps to mitigate the rate of deterioration in public finances, including the implementation of savings. Yet, the underlying trend continues, notwithstanding the optimistic tone of the government's most recent economic and fiscal forecasts.

Latest budget projections - persistent deficits

The 2025-26 Tasmanian State Budget projects a net operating deficit of $1.3 billion in 2025-26, following deficits delivered in the prior two years. The budget is projected by Tasmania's Treasury to remain in shortfall in 2028-29.

Over the same forward estimates, net state debt is projected to rise from the current $7 billion to $10.4 billion, approaching $30,000 per person in Tasmania. This equates to around 25% of Tasmania's gross state product (GSP). Debt servicing costs are forecast to rise from $350.6 million to $649.3 million per year.

The state's underlying net operating balance, excluding one-off Commonwealth capital grants - shows a $3.8 billion deficit over four years, a measure that reflects Tasmania's persistent structural fiscal imbalance. The state's current budgeted savings measures - including a public servant hiring freeze, agency efficiency dividends rising from $50 million to $150 million per year, and a reduction of approximately 2,500 FTE positions in the public service - still leaves little fiscal buffer for additional and unexpected liabilities.

Both Moody's and Standard & Poor's credit rating agencies have placed Tasmania on negative credit outlooks.

Possible contingent liabilities

In this fiscal environment, the materialisation of “significant and probable” contingent liability, including possibly to the Tasmanian state government, from STT's current contracting activities could have significant adverse consequences for Tasmania's fiscal sustainability, credit standing and capacity to fund essential services.

Taking this cost to the bottom line of the Tasmanian budget, as the legal advice suggests may be possible, would add a significant additional impost to the state’s already deteriorating fiscal position. Such an impost, if realised, would increase the chances of a credit rating downgrade and higher borrowing costs for the government.

Tasmania’s economic outlook … and emerging risks

The state’s deteriorating fiscal position is partly explained by the fact that growth in Tasmania’s economy generally has been below growth in the national economy. This means weak growth in employment.

The latest state budget papers confirm that the outlook for Tasmania’s economy will remain challenging. The budget included the following forecasts of the main aggregates which, on balance, look optimistic given more adverse trends at the national level. This optimism at the time the budget was prepared increasingly looks unlikely to be justified.

- Gross state product (GSP) growth was zero in the year to June 2025, but is forecast to improve to 1% in the current fiscal year, albeit with state final demand contracting;
- Employment falling by 1% in the most recent fiscal year;
- The unemployment rate flatlining at 4% across the forward estimates;
- Population growth of just 0.3%-0.7% over the forward estimates.

More recent risks to economic growth

Of course, acute economic and fiscal risks have emerged most recently via the renewed military conflict in the Middle East. Most governments the world over are dealing with shortages of energy and expectations of even weaker economic growth and rising inflation. This stag-flationary environment is one Australia’s Reserve Bank must confront, most likely by rising interest rates again into a weakening growth environment. This could make conditions for residential and commercial construction even more difficult.

The International Monetary Fund (IMF) recently downgraded its forecast for global economic growth because of the conflict with Iran and the spike in energy prices.[26] The downgrades for expected growth in Australia were larger than all other developed economies.

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[26] International Monetary Fund (2026) *World Economic Outlook: Global Economy in the Shadow of War*, April 2026, International Monetary Fund, Washington DC.

It follows that such a downgrade at the national level - if the forecasts prove to be accurate - would result in significant drag on growth in Tasmania's economy, too.

6. STT's financial sustainability and resilience

Legal advice indicates that "significant and probable" risk arises from STT signing new and/or replacement supply contracts in the absence of certainty about how changes to the federal legislative regime may affect the timber industry in Tasmania. This could have implications for the financial resilience of STT, which is summarised here.

The most recent annual report of STT for the year ended 30 June 2025 reports that the entity has made a profit for each of the last eight years. This assessment, however, masks underlying vulnerability and difficult market circumstances. Indeed, but for positive revaluations and significant government grants for community service obligations like fire mitigation and material positive asset revaluations, which are not explained in detail in the annual report, the organisation's finances look significantly weaker.

STT's statement of corporate intent in the 2024-25 annual report claims that underlying profit from operating revenue and expenditure was $0.8 million. Outside significant boosts to cash and non-cash revenue, expenses associated with forestry management operations exceeded revenue received from customers in the year ended 30 June 2025.

STT's recent financial performance

Examination of STT's latest published annual financial statements indicates that the entity faces falling sales and difficult market conditions.

- Net cashflow from operations in 2024-25 was barely half the target set for the year, an indication of significant and recent underperformance relative to expectations.
- Net revenue, including from sale of timber products, was down in the prior year, as were total expenses.
- Sawlog output was nearly 20% below target last fiscal year, although this lower level of production is said to have "met customer demand".
- Without government subsidies and the significant positive asset revelation (after a decrease in forest value in the year ended June 2024), the entity may have traded at a loss.

The apparent challenges facing the entity are acknowledged in the commentary included in STT's latest annual report. STT's Statement of Corporate Intent for 2025-26 acknowledges the "economic headwinds, including reduced demand for domestic sawlog and veneer log sales, largely due to a soft housing construction sector and broader economic uncertainty." This was before the start of the war in Iran which has compromised global supply chains and lifted inflation.

STT reported a positive cash balance at the end of the 2024-25 fiscal year, albeit a significantly smaller balance than in the year ended June 2024.

Much of the recent improvement stemmed from a significant positive non-cash asset revaluation gain of more than $7.5 million (see below). There was a reduction in operating cashflow relative to the prior year, reflecting lower receipts from customers and higher cash payments to suppliers and employee expenses. There also was a reduction in interest income.

There was a significant shortfall of cashflow ($1,215,000) on STT's investment activities, although this was substantially smaller than the shortfall in the prior fiscal year. This most recent annual shortfall is despite what seems to have been receipt of the cash proceeds of a $7.5 million maturing term deposit, although this cannot be verified from public sources.

STT's community service obligations (CSOs)

That said, it is not unusual for organisations to receive government funding, especially an entity fully owned by the Crown. Moreover, the funding is provided by the government to assist STT to undertake community service obligations (CSOs). In the 2024-25 fiscal year, the breakdown of these CSO payments from the Tasmanian Government to STT was as follows:

- Land management of $8 million;
- Fuel reduction of $2 million; and
- Fire prevention of $2 million.

The government would have to directly fund and manage these activities in the absence of these CSO payments to STT. Alternatively, some of these community focussed activities, including fuel reduction and fire prevention, could be undertaken by a different agency, including a designated fire service or a government-owned body (a separate BGE) newly-established for those purposes. This, though, would result in lower income from the government.

The Victorian example

Victoria's equivalent forestry body, VICForests, sits within a multi-agency body Forest Fire Management Victoria. There was no CSO payment structure in VIC. Rather, the obligations of matters like land and fire management were handled by a separate body.

Tasmania's model presents a more complex unwinding problem. Because the CSO payment is channelled through STT rather than administered directly by a separate agency, any significant contraction of STT's commercial operations risks creating pressure on the government to either maintain equivalent CSO payments to a financially weakened entity, or to stand up alternative institutional capacity to perform these functions.

STT's forest asset revaluations

Similarly, it is conventional accounting practice for organisations to include in their profit and loss statements positive and negative asset revaluations, respectively. These revaluations are reported as non-cash transactions, as has been the case here.

In the case of STT in the 2024-25 fiscal year, the positive asset revaluation (value of the Tasmanian forest STT manages) is significant at $7.519 million. This was represented by two components, as follows (note, the amounts do not sum due to rounding):

- a $2.0 million increase in carbon values; and
- a $5.5 million increase in the value of standing timber.

This increase took the value of forest assets under the management of STT to nearly $220 million as at 30 June 2025. There was a $266,000 decrease in the value of the forest asset in the prior year ended June 2024. Again, however, such a variation is not unusual, although it was influential in allowing STT to report a profit for the 2024-25 fiscal year.

It follows that there is a risk that a significant reversal of the value of the forestry assets - perhaps because of even more difficult domestic and global timber market conditions or even implications from the changes to the federal legislative framework - could see the finances of the entity deteriorate.

Conclusion

It is apparent from recent public commentary that STT is signing, or is planning to sign, and/or is in the process of signing, new timber supply contracts to replace existing supply contracts that expire in 2027. The term, nature and details of these supply contracts is commercial in confidence, as are the existing contracts due to expire next year.

This apparent renegotiation and signing of new contracts is despite recent changes to the federal legislative landscape via material changes to the EPBC Act that come into effect on 1 July 2027. Under these changes, forestry activity in Tasmania no longer will enjoy an exemption from federal environmental law.

The details of the recent legislative changes are yet to be settled, so industry uncertainty in Tasmania is high. Government officials have said this uncertainty is one of the reasons the new supply contracts are needed. The industry already is facing difficult economic and market conditions, even according to STT, including weakening demand for timber products.

Legal advice obtained confirms that “rushing” to sign contracts “prematurely” could bring risks to STT, the Tasmanian government and, ultimately, Tasmanian taxpayers. These risks are “significant and probable” according to the legal advice, and include possible payments of compensation, alongside financial, operating and reputation risk, among others.

The context is that the finances of STT are supported by significant positive revaluations of forestry assets and ongoing government support. The latter payment is provided so STT can comply with its Community Service Obligations (CSOs), including fire prevention and management. This is considered typical practice for a GBE.

Treatment of such financial benefits as adding to profitability is an acceptable accounting practice. It has allowed STT to report a profit in its most recent public accounts. This treatment, however, may mask underlying vulnerabilities, including further dependence on positive asset revaluations over time. It’s plausible that, in the future, a significant *negative* forestry revaluation could fail to offset any cash shortfalls from operations.

The broader context is that the state government’s fiscal position has been under stress. The official budget papers predict deficits and rising public debt over the period ahead. This predicted weakness in the state’s public finances is before “significant and probable” liabilities associated with the local timber industry, that may fall upon the state government’s budget, are taken into account.

Appendix

Sustainable Timber Tasmania (STT) - timber supply and financial details

Metric	Figure	Source
STT sustainable yield, post-2027 (2022 estimate)	~58,000 m³/year	STT Sustainable Yield Report 6, 2022
STT legislative sawlog quota	137,000 m³/year	Forest Management Act 2013
Yield shortfall post-2027 vs quota	~79,000 m³ (58%)	TWS analysis, Public Cost Private Gain, 2026
STT net operating cash (2024–25)	$1.8 million	STT Annual Report 2025
Annual government CSO payment to STT	~$8 million	STT Website
Share of Tasmanian wood product from native forest	~22%	ABARES 2024–25; TWS 2026
National share from plantations	~90%	ABARES, Forest Facts, 2025