Rhett Martin questions whether there is a suitable standard of accountability when using public assets for private return.

Transparent accountability

Corporate accountability and corporate social responsibilities: what do these terms mean and should they represent key elements of good corporate governance? Can these terms be defined under some objective standard thereby providing a point of reference against which a company's performance is assessed?

This analysis looks at Gunns Ltd, its accountability in respect to its logging activities and considers suitable standards of corporate accountability by which corporate behaviour can be assessed. Corporations must be constrained by ethical standards, socially and environmentally responsible reporting and have regard to social and environmental inputs in addition to economic inputs. Each of these inputs must be weighed up in corporate decision-making and their reporting should be clear enough to enable an objective assessment by regulators and others alike.

This paper also asks: What is the appropriate level of information that should be made available to third parties, including ASIC, particularly in circumstances where the company has gained advantages from the state?

PUBLIC ASSETS

Gunns Ltd is an extremely profitable company, producing woodchips from native hardwood forests sourced from the Tasmanian State Government at less than market cost.

The question considered here is not whether a public resource should be used by a private corporation (a topical argument well traversed), but whether there is a suitable standard of accountability for the use of a public asset for a private return.

Approximately half of the timber used by Gunns comes from state forests. Forestry Tasmania sells chip logs to Gunns for $12.50 per green metric tonne (GMT) and in turn Gunns on-sells these for around four times this price. The question is whether Gunns provides sufficient information on and is accountable for such activities. It becomes an issue of private accountability in the use of public assets

AGREEMENTS TRANSPARENCY

Gunns says it does not publish wood sale volumes or prices because this information is commercially confidential. However the native forest "floor price" is stated in its supply agreements with Forestry Tasmania. The floor price of $12.50 per GMT is fixed until 31 December 2012 and then fixed at $14.00 from 1 January 2013 until 31 December 2017. The company's environmental policy, signed off by Chairman John Gay, includes the following commitments:

- To engage in open and transparent dialogue with the community, regulatory agencies and other stakeholders to promote responsible resource management practices.
- To demonstrate to key stakeholders the long-term sustainability of our product by implementing systems able to trace the origins of our forest products to a legally harvested and sustainably managed resource.
- To retain adequate undisturbed habitat for sensitive or poorly represented biota.
- To communicate our environmental performance to our employees, contractors, clients, shareholders and community stakeholders on a regular basis.

The failure to reveal information on wood prices would appear to be at odds with this policy, particularly in relation to its stated commitment to engage in "open and transparent dialogue with the community".

The Gunns half-year report to shareholders for the period ending 31 December 2007 shows that earnings from the forest products business increased 48 per cent on the previous year. From this report a number of issues arise in respect to corporate accountability. There has been an improvement in the bottom line figures for the Gunns forest products business. However this must be seen in the context of the company's position that revealing wood volume and wood price information is commercially confidential. Thus information which allows for assessment of an input cost against overall performance is missing from Gunns' published accounts. The reporting regime under the Corporations Act 2001 (Cth) places an obligation on a company to "correctly record and explain its transactions and financial position and performance".

In an ABC *Four Corners* interview in January 2004, Forestry Tasmania's then managing director Mr Evan Rolley said the corporatisation of the previous forestry department was "to try and give forestry on state forests a more commercial focus..." He said, "Every hectare of forest that's been harvested is replanted back to forest", and that "non-wood values" (such as water quality and biodiversity) are taken into account

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before any harvesting occurs. He said the primary reason for harvesting old growth forests was to produce high-quality veneer and sawlog timber and that pulpwood (for pulp and paper products) was merely a by-product. However, when *Four Corners* alleged that timber considered good enough for use as saw logs was being used for pulpwood, Mr Rolley said a small component of old growth forests, not considered fit for the sawmill, had been used for pulping.

This response raised accountability questions about the percentage of that old growth forest used for such a purpose.

When asked by *Four Corners* what price Gunns paid for Forestry Tasmania timber Mr Rolley said, "It depends whether they're buying veneer logs, saw logs, and pulpwood. It depends where they buy it from", and that the average price for pulpwood was around $14 per GMT, which he argued compared favourably to other states. When questioned on the potential for Gunns to resell this wood for up to 3-4 times this price, Mr Rolley said that the added costs of taking the wood to market justified this increase. What is arguably more problematic was the admission by Mr Rolley that Forestry Tasmania is a government enterprise which has gone into joint ventures with other corporations. Large tracks of Crown land were transferred into freehold title for Forestry Tasmania and this raises the question of how corporations that do business with Forestry Tasmania benefit from these transactions.

What are we to make of the Gunns experience? This company uses a public resource in its commercial operations. The use of public forests represents a social and environmental impact which arguably should be weighed up in the process of corporate decision-making. Reporting obligations under the Corporations Act should extend to information about social and environmental impact. Currently reporting obligations of listed companies do not adequately extend to cover such reporting requirements. Specifically, where a company has, as in this case, a benefit provided by a subsidised input that uses a resource that has social and environmental impact, the listed entity should be required to make full disclosure of price, volume and any other relevant indicia pertaining to the public asset. Further, the listed entity should be required to include, possibly in the director's report, a description (based on established criteria) of the 'weighing up' of social and environmental factors along with economic inputs in corporate decision-making. In short substantial amendment is required to account for this under chapter 2M of the Corporations Act 2001 (Cth).

Arguably corporate sustainability, accountability and social responsibility are intertwined. Accountability is clearly relevant when considering an environmental issue such as the price paid for old growth forest timber by a private company such as Gunns Ltd. Restriction of information under the guise of 'commercial in confidence' rubric is effectively a device to avoid accountability under a seemingly legitimate commercial phrase. Times have changed and this practice is itself unsustainable in a rapidly changing world.

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