



PARLIAMENT OF TASMANIA

SELECT COMMITTEE ON FOREST INDUSTRY EXIT PACKAGES

Interim Report

*Brought up by Mr Gutwein and ordered by the
House of Assembly to be printed*

MEMBERS OF THE COMMITTEE

Mr Gutwein (Chairperson)

Mr Bacon

Mr Booth

Mr Groom

Ms White

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1 APPOINTMENT & TERMS OF REFERENCE

1.1 The Honourable Member for Bass, Gutwein MP, the eventual Chair of this Committee, on 20 March last proposed the establishment of a Select Committee to inquire into forest worker exit packages, provided by the Commonwealth Government as part of the Tasmanian Forests Intergovernmental Agreement.

1.2 The final resolution of the House was as follows:-

Resolved, That: -

(1) The House notes the establishment of the Senate References Committee on Rural and Regional Affairs and Transport inquiry into the Auditor-General's Audit Report No. 22 2012-13, Administration of the Tasmanian Forest Intergovernmental Agreement Contractors Voluntary Exit Grants Program, which is to report by 12 April 2013.

(2) A Select Committee, be appointed, with power to send for persons and papers, with leave to sit during any adjournment of the House exceeding 14 days, and with leave to adjourn from place to place to inquire into and report upon exit packages for the forest industry including the Tasmanian Forests Inter-governmental Agreement (IGA) voluntary exit program: specifically:-

(a) the development of the rules for the program;

(b) the application of the rules throughout the process;

(c) the concerns raised in the Australian National Audit Office report into this matter in relation to the administration of and delivery of the program of grants;

(d) the outcomes of the exit program and the impacts on participants and the remaining industry;

(e) any Government Agencies involvement in, and compliance with, rules and requirements of support and voluntary exit programs;

(f) any other matters incidental thereto.

2 CONDUCT OF THE INQUIRY

- 2.1 The Committee resolved at its first meeting, to invite by way of advertisement in the three daily regional newspapers, interested persons and organisations to make a submission to the Committee in relation to the Terms of Reference.
- 2.2 Advertisements were placed in the Saturday editions of three newspapers on 20 April 2013. The Committee resolved that the closing date for submissions would be Friday 17 May 2013.
- 2.3 To date the Committee has received 19 written submissions.
- 2.4 The Committee has met on eight occasions, two of which involved public hearings. Nine witnesses came before the Committee in Launceston and a further witness was heard in Hobart in September.

3 **PROGRESS REPORT**

- 3.1 Whilst the Committee has held two days of public hearings, received testimony from nine witnesses and also received 19 written submissions, there are still witnesses who have played a pivotal role in this process that the Committee would like to hear from. However the Committee feels that it is important for those suffering hardship as a result of the restructuring of the Tasmanian forest industry to be informed of the Committee's findings thus far.
- 3.2 The Committee received and took into evidence the report of the Senate Rural and Regional Affairs and Transport References Committee inquiring into the Auditor-General's report on the Tasmanian Forest Grants Programs.
- 3.3 Issues widely reported in the media such as allegations of fraud and non-compliance are also examined in the Senate Report and the Committee is satisfied that these matters have now been referred to the appropriate authorities for investigation.
- 3.4 The Senate Report also notes the concern of those who were deemed ineligible for exit grants especially former Gunns Ltd contractors.
- 3.5 Much of the evidence before this inquiry mirrors that presented to the Senate Committee. Former Gunns Ltd contractors appearing before the Committee questioned their ineligibility and the purpose of the program. Others highlighted the inadvertent consequences of the grants program on allied industries such as general haulage and civil construction. Even grants recipients questioned the fairness of the program and the way in which entitlements were arrived at.
- 3.6 The evidence before the Committee overwhelmingly relates to the \$45 million grants program initiated by the Tasmanian Forests Intergovernmental Agreement (IGA) between the Commonwealth and State Governments signed on 7 August 2011.
- 3.7 The strongly held belief of forest contractors appearing before the Committee was that the forest exit grants program was first and foremost a measure to address the hardship faced by Gunns Ltd contractors who had lost their jobs as a result of Gunns withdrawal from native forest harvesting.
- 3.8 This belief had been fostered by the statements contained in the Heads of Agreement that preceded the IGA.
- 3.9 Heads of Agreement signed by the Premier and Deputy Premier of Tasmania and the Prime Minister and Federal Environment Minister on 24 July 2011 states that:

The Tasmanian and Australian Governments agree that:

A package of immediate assistance will be provided to workers and contractors who are losing their jobs and livelihoods as a result of the current changes in the industry, namely the exit of Gunns Ltd from the native forest sector.¹

- 3.10 The Department of Infrastructure, Energy and Resources in its submission to this inquiry also acknowledged that the forest exit grants programs were initiated:

... in response to the difficult financial circumstances being faced by many of Tasmania's native forest harvest and haulage contracting businesses due to the significant downturn in Tasmania's markets for native forest pulpwood in the late 2000s.²

- 3.11 However forest contractors involved in harvest, haulage, silviculture and road building, some with decades of involvement in native forest, told the Committee that they were deemed ineligible for exit grants because the program guidelines required that 50% of operations in the nominated years had to have been conducted in public native forest.

- 3.12 Gunns Ltd contractor, Mr Darryl Scott told the Committee of the devastating effect on his business as a result of Gunns decision to withdraw from the native forest sector:

We received a fax from Gunns in April/May 2011 advising us our quota was reduced to zero ... We had no option but to leave the industry. No work no income. How were we going to survive?

... During a lengthy working period within the forest industry we have harvested on public and private coupes at the sole discretion of our principal (Gunns). Unfortunately these allocations of coupes did not meet the 50% public criteria during the designated years.³

- 3.13 In his written submission to the Committee forest harvester Mr Dennis Iles notes that:

The first stage of the IGA was to deal with the immediate impact of the Gunns decision to leave native forest including associated workers and contract support. The immediate impact was Gunns contractors being issued with zero quota ... the final guidelines were clearly designed to favour Forestry Tasmania (FT) contractors and disadvantage Gunns contractors, the ones the IGA said would be supported.

¹ Tasmanian Forest Agreement, Heads of Agreement, 24th July 2011, page 1.

² Submission No.11 page 1.

³ Submission No. 1 page 1.

...The fact needs to be noted that the worst performing and poorest FT contractors appear to have been rewarded to leave the industry with up to \$3 million of taxpayer dollars while some contractors with proven track records who did not want to leave the industry have been thrown on the scrap heap.⁴

- 3.14 When giving evidence to the Senate inquiry Mr Padgett, Director, Australian Forest Contractors Association stated that:

...everybody knew that, when Gunns decided to exit the native forest woodchip business, their contractors were going to be aggrieved seriously through that ... it did say in the statement of principles that the exit package would be designed around exiting contractors that were working in native forests for Gunns ... When the IGA was brought down, ... the wording changed to 'public' native forest. Our view of that was that it was purely on the authority of the Minister, perhaps the Prime Minister, we are not sure. But it was political and it was forced into the agreement not to be changed.⁵

- 3.15 When questioned by the Senate Committee in regard to negotiations around the imposition of the 50% public native threshold Mr Padgett responded as follows:

...The original negotiations with the Department of Agriculture, Fisheries and Forests (DAFF) started at 90%. You had to have done 90% of your work in public native forest. That just about meant that no-one [Gunns contractor] qualified for it ...we negotiated, and we negotiated quite hard. But all negotiations must end, as we know and when we got to 50% that was as far as we as a group were able to negotiate. I can tell you that in that process there were some pretty heated conversations with DAFF because we were very much of the view that they did not understand the full ramifications of it.⁶

- 3.16 The IGA does indicate that the exit packages are aimed at operators on public native forest and states that:

... the Commonwealth will provide and manage the allocation of \$45 million subject to demand in assistance for voluntary exits from public native forest operations for haulage, harvest and silviculture contractors.⁷

- 3.17 The grants program guidelines further specify that an eligible contracting business must:

⁴ Submission No. 2 pages 1 & 2

⁵ Senate Committee Hansard, Rural and Regional Affairs and Transport References Committee, Auditor-General's reports on Tasmanian Forestry Grants Programs, Tuesday, 7 May 2013, pages 26 & 27

⁶ Senate Hansard, Tuesday, 7 May page 27

⁷ Tasmanian Forests Intergovernmental Agreement between the Commonwealth of Australia and the State of Tasmania, 7 August 2011. Page 3.

...under and ongoing contract(s) or ongoing arrangements, be conducting harvest, haulage or silvicultural operations in Tasmanian public native forests. This means that more than fifty percent of the native forest operations (including private native forest and excluding plantation forests) of a business must be in public native forest operations in at least one of the following four financial years: 2007-8, 2008-09, 2009-10 or 2010-11.⁸

- 3.18 Whilst disadvantaging Gunns contractors who predominately operated on private native forests the 50% public native forest requirement also produced difficulties for Forestry Tasmania as their contractors almost exclusively operated on public native forest and would therefore be more likely to qualify for an exit package.

- 3.19 Forestry Tasmania told the Committee in their submission that:

Forestry Tasmania was supportive of the grants program as a means to address contractor oversupply following the decision of Gunns Limited to exit native forest harvesting as well as the reduced saw log supply from State forests that will result from the current round of Government forest agreements.

Nevertheless, Forestry Tasmania had a number of concerns about the program's effects on its contracted wood supply capacity, and it sought on a number of occasions to advise the Department of Agriculture, Fisheries and Forests of these concerns. Forestry Tasmania's position is that these concerns were not adequately addressed, and that in turn this led to a reduction in its capacity to honour wood supply obligations to its customers as its contractors left the industry. In order to meet its contractual obligations, Forestry Tasmania was required to expand its remaining contractor capacity following the implementation of the grants program.⁹

- 3.20 An explanation for why Gunns contractors who were obviously most in need were not directly targeted for assistance, may be gleaned from evidence given to the Senate inquiry by Mr Tom Aldred, First Assistant Secretary, Plant Biosecurity, Department of Agriculture, Fisheries and Forests.

- 3.21 Under questioning during the Senate inquiry in respect to the insertion of the term 'public' native forest in the final IGA document, Mr Aldred offered to provide some context around the negotiations that had taken place and led to the final form of the agreement.

If we look at the nature of the discussions and negotiations that were going on at the time, essentially it was about bringing together a whole range of

⁸ Tasmanian Forests Intergovernmental Agreement, Contractors Voluntary Exit Grants Program, Guidelines October 2011, page 2.

⁹ Submission No. 10 page 4

claims or desires by a range of people. A couple of the key parts were that there had been a substantial downturn in the industry; it was not solely related to Gunns Limited. The opportunity was there to place additional areas of public land into the reserve system. That change would have impacted on the availability of public logs from that resource base. The actual construct of the agreement reflects that. Then the contractor's package that was developed in accordance with that set out to assist the industry overall in terms of the public native industry. Again it was not a Gunns package. There was certainly a range of discussions with industry and with the Tasmanian government around models, and the industry players and the Tasmanian government had a leaning towards an entitlements model rather than a broad competitive based model, which was the view of the Commonwealth. All those things came together in the IGA and then in the design of the guidelines, and then we have implemented accordingly.¹⁰

- 3.22 Another major criticism of the exit grants program is that it has inadvertently caused distortions in the broader economy both within forestry and other industries.

- 3.23 Mr John Lamb, CEO, Lloyds North Pty Ltd in his submission explained to the Committee how the exit grants program had affected his business:

The company has lost business in recent months to competitors trading cheaply on the back of exit payments ...

Compensation payments to some contractors are causing unintended hardship and loss of jobs elsewhere because of the design of the program and the way in which it has been administered.

By failing to remove the productive capacity and by failing to predict and restrict the behaviour of recipients the program has actually made the problem worse and more widespread ... In some cases productive capacity that has "exited" has simply re-entered the market and is still working in Tasmania's native and plantation forests today ... In other cases, owners have entered different parts of Tasmania's transport industry leading to over-supply there. In all cases that I have researched, those who received compensation have used that funding to pay for equipment and trucks and (with no debt on their fleets) are now undercutting those who did not receive a handout by up to 30%.¹¹

- 3.24 Mr Matthew Burns, Director, State-wide Earthworks was also critical of the way in which the exit grants program was administered and the ramifications it had for his business.

¹⁰ Senate Committee Hansard, Rural and Regional Affairs and Transport References Committee, Auditor-General's reports on Tasmanian Forestry Grants Programs, Wednesday, 15 May 2013, page 7

¹¹ Submission No. 14 page 6.

State-wide Forest Services Pty Ltd was established in 1995 with its primary focus to provide silviculture services to the forestry industry ... at the peak State-wide Forest Services generated a turnover in excess \$4 million and employed 80 staff ... State-wide Forest Services failed to meet many of the exit package requirements due either to the segment of the industry ... or the lack of long term contracts ... From our perspective the exit packages, whilst welcomed have not acknowledged the diversity within the industry and many of the key participants have been ineligible ...

Ineligible businesses are now competing against exit package recipients who now have the financial resources to undercut competitors. Civil construction is an example of this. I am also aware of many exit package recipients who effectively still operate within the forestry industry with services being provided under businesses owned by related parties. Whilst this may satisfy the conditions of the exit packages, I feel that this is not within the spirit of the agreement.¹²

¹² Submission No. 15 pages 1 & 3

FINDINGS

1. Gunns exit from the native forest harvesting sector had a major impact on the supply chain for the forestry sector.
2. Stakeholders had argued - and it was widely understood - by both State and Federal government that there would be significant detrimental financial impact on those involved in the sector and that restructuring assistance for those impacted by the withdrawal of Gunns was required.
3. The widely held view was that those affected by the Gunns withdrawal mainly contractors engaged in harvesting, transport, roading and silviculture work needed to be assisted to restructure their businesses or exit the sector.
4. During the process of negotiation between industry and the State and Federal Governments the focus of the restructuring program was changed to where it was aimed at exiting contractors who worked on public land rather than on private as many of the affected Gunns contractors did.
5. The program was targeted at those contractors who could demonstrate that 50% of their work was conducted on public land which meant that many contracting businesses that were primarily employed under arrangements with Gunns could not meet this threshold and therefore were ineligible for assistance.
6. The funds made available for restructure were inadequate for the task and the exit program was targeted at only those involved in harvest and haulage meaning that the circumstances of contractors and firms engaged in other parts of the supply chain were neglected.
7. The rules that were applied in respect of the exit grants were such that many contractors were lawfully able to return to work after restructuring their businesses effectively competing with businesses that had not been able to receive any government assistance.
8. There were other flow on effects to other industry sectors as well such as the civil contracting sector as exited forestry businesses benefitting from government assistance were now able to migrate to these sectors with lower levels of debt and utilise their machinery to compete against other established firms but with a lower cost base.
9. There were also a number of Tasmanian businesses who 'fell through the cracks'. They were not eligible for an exit grant, had no financial capacity to restructure or be competitive should they have been able to change their business focus to another industry sector and who are now in extreme financial hardship.

RECOMMENDATIONS

1. That hardship assistance be made available for those individuals and businesses that were involved in the forestry supply chain that were either not eligible for assistance or have been significantly negatively impacted on in a direct financial sense as a result of the way that the exit package program was managed or targeted.

2. The State Minister responsible for forestry review the evidence received to date by the committee and proactively approach those witnesses that identified as being in hardship through the evidence they have provided to the inquiry.

**Parliament House
HOBART
13 November 2013**

**Peter Gutwein M.P.
CHAIR**