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Minister for Energy and Resources

Level 1, Public Buildings
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Tasmania

16 DEC 2009

Hon Greg Hall MLC
Chair
Government Business Scrutiny Committee 'A'
Legislative Council
Parliament House
HOBART TAS 7000

Dear Mr Hall

Requests for Information – Forestry Tasmania

In response to the Committee's requests for information please find below responses to each request.

- 1. The cost to Forestry Tasmania in the 2008-09 financial year of providing its community service activities including but not limited to fire fighting, reserves management, roads maintenance, research and tourism. Please list the cost of each individual community service activity as subtotals together with the total cost of all community service activities.*

Response:

This information is provided on page 22 of our 2008-09 Stewardship Report provided to the Committee. The community service activities (CSA's) in the report are those currently formally identified for reporting purposes by FT. As encouraged by the Committee, FT proposes to undertake a review of its reported CSA's to ensure that it is as comprehensive as possible

- 2. The documents and any other information provided by Forestry Tasmania to the Auditor-General in relation to the examination by the Auditor-General of Forestry Tasmania's community service activities.*

Response:

Please find attached a document prepared pursuant to a request from the Auditor General. Note that the request from the Auditor General was more broadly stated than just CSA's, to also include all activities, whether of a commercial character or not, which reflect FT's public ownership, the constraints of the Forestry Act, and its subsequent commitment to long term sustainability, that a private sector forestry organisation, with a focus on short term profit and share value, would not be expected to undertake.

3. A numeric breakdown of the total Full Time Equivalent Forestry Tasmania employees by sectors of the Forestry Tasmania business, including the number of Forestry Tasmania employees who work in public relations, Government relations and corporate relations.

Response:

FT Business Unit	FTEs at 30 June 2009
Head Office - Corporate & Support	74.25
Research, Development, Planning & Resources	56.11
Field Operations Support	21.36
Murchison District	82.90
Mersey District	40.86
Bass District	69.40
Derwent District	50.26
Huon District	63.07
Corporate Relations & Tourism	6.60
Tourism – Site Operations	17.97
TOTAL	482.78

4. How much funding remains in the Tasmania Community Forests Agreement fund and when this funding is expected to be fully expended?

Response:

At 30th June 2009 Forestry Tasmania recorded \$44.36 million of TCFA funding not yet recognised as earned – see Note 26, page 28 of Appendix 1 – Financial Statements. See also Note 2(e) and Note 2(i) for additional information on treatment of TCFA funds.

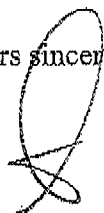
In addition there is a further \$20 million funding to be drawn by FT for identified TCFA purposes.

The time frame over which these funds will be fully expended is primarily a factor of matching the funds to the eligible works (eg. plantation establishment, pruning, thinning etc) which will be undertaken over future years.

Some of these activities take place some years after plantation establishment, so the expected time frame to fully expend TCFA funds is up to 5-7 years from now.

The major costs are associated with plantation establishment and as such the majority of funds are expected to be expended within the next 2-3 years.

Yours sincerely



David Llewellyn MP
MINISTER

Analysis of FT Costs Associated with Government Ownership and Related Commitment to Long Term Sustainability 2008-09

Forestry Tasmania (FT) has estimated the costs of activities undertaken as community service activities, and these are reported in its Annual (Stewardship) Reports (see pg 22, 2008-09 Report). In addition, there are a variety of activities that FT undertakes which reflect its public ownership, the constraints of the Forestry Act, and its subsequent commitment to long term sustainability. In our view, these activities are unlikely to be undertaken by a privately owned entity with a focus on short term profit and share value. Examples include, but are not necessarily limited to, the following which apply to the 2008-09 year:

- a) **Browsing Mammal Control:** Following a request from the government in 2004, 1080 is no longer used in the control of browsing damage on State forest. It is still legal to use 1080 in Tasmania (and Australia) generally, and it continues to be used by private forestry and agricultural enterprises. FT has utilised other methods to control browsing damage. These methods are both more expensive, and ultimately less effective. A research based assessment has indicated that the alternative methods used result in an additional cost of approximately **\$450,000 per annum**.
- b) **Alternatives to Clearfelling in Oldgrowth Forests:** FT was requested by government to phase out clearfelling in oldgrowth native forests in 2004, and this was subsequently made a commitment in the 2005 Tasmanian Community Forest Agreement. There are no general requirements to this effect required on private lands. Variable retention (VR) is the alternative harvesting method to the normal clearfall, burn and sow (CBS) operation, which has been developed and is now being implemented in fulfilment of this commitment. As documented in the 2008 review, "A New Silviculture for Tasmania's Public Forests" (Table 7) of this program, FT incurs an additional cost of \$3.95 per tonne¹ using this harvesting method. Under the TCFA, FT received short-term compensation funding which is being utilised at the rate of \$2.50 per tonne for VR sales. In 2008-09, FT sold 134,615 tonnes from VR coupes. The additional (net of compensation) cost to FT for those sales was **\$195,000**. This additional cost does not include the initial costs in establishing and developing the technique, which has involved 12 years of research effort to date. *It should be noted that FT is committed to increase its VR program in the future to around 1000 hectares per annum. The TCFA compensation is only available until the balance is exhausted, at which time FT will have to cover all additional costs. It is estimated that the longer term costs to FT will be at least \$1m per annum.* There are additional volume impacts associated with the introduction of this silvicultural technique. These have been taken into account in the analysis at point h) below.
- c) **Public Road Access:** Unlike private forest land owners, FT provides a road network that is freely accessible to the general public, and which provides access, *inter alia*, to many National Parks and to private property residences. FT maintains its road infrastructure to a standard that meets both forestry and public needs, as well as for beekeeping and special timbers harvesting [see i) below]. FT estimates that 25% of the road maintenance cost can be attributed to public use as well as providing access that enables FT to meet its fire management obligations. FT annual road maintenance cost is ~\$5.0 million at 25% = **\$1,250,000**.

¹ Note that total additional cost of VR was estimated at \$5.20/tonne, of which \$1.25 was a direct cost to the harvest contractors.

- d) **Forest Research:** FT maintains a forest research program, which reflects its commitment to long term sustainability. The overall program is around \$3-4 million per annum, offset by RFA/TCFA funds and other research grants obtained from FWPA and government. (FT is levied for research contributions to FWPA, at a rate of \$0.05 per tonne of logs sold, in the same manner as all forest growers in Australia.) This commitment to research exceeds any made by private forest growers in Australia. FT research results are reasonably easily accessible to others in the forestry sector and the public generally. For example, FT's technical bulletins are the basis for Forest Practices Authority code requirements, and are also widely used by private industry. Private industry investment in native forest research is negligible, with what little is invested being directed to plantation research. It is therefore appropriate to include here all of FT's research expenditure on Native Forest (NF) and, say, 50% of that on Hardwood Plantation (HWP) (with appropriate allowance for administrative overheads), reduced by research revenues from grants or TCFA. The Community Service Activity cost reported in the Stewardship report already includes 50% of the NF cost. The additional cost to be included in 2008-09 is NF (other 50%) - \$707,000, HWP \$850,000, Admin \$340,000 = \$1,897,000. Less TCFA income \$849,000 and Grants received \$92,000 = \$941,000. Net additional cost in 2008-09, over CS Activities already declared \$956,000.

- e) **Functions of Government:** FT participates in, and contributes to various governmental processes as required/expected by government, eg RFA/TCFA implementation and reporting, national forest policy processes (Forest and Forest Products Committee, Montreal reporting, National Forest Inventory etc). It is also subject to the FOI Act, and services Ministerial and Parliamentary correspondence and information requests. Costs are estimated as follows:

Governmental policy and information processes: \$70,000

Ministerials and FOI: \$50,000

- f) **Conservation of Natural and Cultural Values.** The Forest Practices Code states landowners have a duty of care to the conservation of natural and cultural values. The landowners' duty of care, as laid out in the Forest Practices Code, includes:-

*"- all measures to protect soil and water values and
- the reservation of significant natural and cultural values at a level of up to 5% for existing and proposed forest, for partial harvesting this reservation level can be up to 10%, without compensation. Conservation values beyond the duty of care is deemed to be for community benefit and should be achieved on a voluntary basis or through compensation mechanisms where available."*

Both the Forest Practices Code and the RFA have provisions which indicate that the first call for conservation requirements will be on public land, ie State forests, in preference to private land. Further, the Threatened Species Act has compensation provisions in respect of activities on private land which are constrained as a result of that Act. Such compensation is applicable where reservation requirements for the protection of threatened species exceeds the Code requirements as set out above. No such compensation is available to FT on State forests.

The average area discount on Forest Practice Plans on State forest is 20%. Taking a conservative view of the above provisions, this represents at least 10% in excess of the duty of care provisions encapsulated in statutory processes for private land. The value of this restriction for 2008-09 can be estimated by reference to Table 7 of the 2008 review "A New Silviculture for Tasmania's Public Forests," where the impacts of increased retention within coupes can be applied to increased retention for conservation purposes. This table estimates that costs increase by \$879 per hectare logged, not including roading. This relates to retention levels of 35%. Discounting this pro-rata for a 10% retention level, suggests a cost of \$250 per hectare logged. In 2008-09, the harvest area was 12,400 hectares, indicating an increased cost of \$3,100,000. Road depreciation costs in 2008-09 were \$8m, or \$650 per harvested hectare, or \$520 per planned, gross hectare. Taking half of the difference, \$65 over 12,400 hectares is a further cost of \$806,000. Estimated total cost increase associated with the 10% additional reservation is **\$3,906,000** for 08-09.

- g) **Section 22AA, Forestry Act:** Under the Forestry Act, FT must make available to the market a minimum of 300,000 m³ of high quality sawlog each year. This restriction, which provides supply certainty and stability to the sawmilling industry, constrains FT's ability to maximise revenues through the sales of sawlogs and other products to best commercial effect and taking advantage of market opportunities as they arise. A separate analysis of the potential effects of this restriction is attached. Included in the analysis is the volume impact of the variable retention silviculture program (See b) above). It is estimated to be in the order of **\$10m per annum**.
- h) **Fire Protection:** FT is a formal and recognised part of the State's fire protection and fighting capacity, and maintains a capacity well in excess of that by any private forest owner. Private forest owners may maintain significant fire protection capacity in relation to forest plantations, but rarely so in the case of native forests. Indeed, FT provides fire protection services to both the Softwood Joint Venture, and hardwood plantation leases on State forest at a cost of \$15/ha/annum. FT therefore accepts plantation protection as a legitimate commercial cost. A proportion of the remaining protection cost to FT is accounted for as part of the Community Service Activities identified under 'Management of forest not used for wood production' in the Stewardship Report, 2008-09 (pg 22: Total cost at \$2.70 per hectare). This leaves over 513,000 ha of native forest, not plantation outside formal and informal reserves for which it is estimated that protection costs would be in the order of, say, 50% of that applied to the plantation resource ie \$7.50/ha over 513,000 ha. **This amounts to an annual cost of \$3,850,000.**
- i) **Special Timbers and Apiary Site Management:** FT manages around 100,000 ha for the long term production of and access to special timbers, under the terms of a Special Timbers Strategy being developed within the requirements of the RFA and TCFA. In addition, FT is required to make available and maintain access to apiary sites for the local beekeeping industry, and to maintain, as far as possible the leatherwood resource on State forests. These management requirements do not provide commercial returns and exceed those provided on private lands. Costs identified at c) public road access, f) conservation of natural and cultural values and h) fire protection, include costs associated with this activity. Funding under the terms of the TCFA also currently covers the costs of specific investment in blackwood regeneration and development of

special timbers recovery and marketing initiatives which are therefore excluded here. However, ongoing planning and management for special timbers and apiary is estimated to cost an **additional \$100k per annum in staff costs**. In 2008-09, this included the preparation and public exhibition of a draft Special Timbers Strategy.

- j) **Meander Dam:** In fulfilling the approval requirements for the Meander Dam, the government required the exclusion from harvesting of surrounding areas of native forest to compensate for the inundation of prime spotted-tail quoll habitat. **The value of the resource forgone was calculated to be \$420,000, however although in-principle agreement was established to compensate FT for the loss, no provision has been made, and the matter remains unresolved.**

SUMMARY

Total Additional Costs the Year 2008-09

		\$'000
Current CS Activity as reported 2008-09		
Recreation and tourism	1266	
Forest research and conservation activities	822	
Management of forest land * based on \$2.70/ha	2215	
Fire management	723	5,026
adjust recreation and tourism (grant funded projects)		(378)
		<u>4,648</u>
Additional Costs as calculated above for 2008-09		
1080 alternatives	450	
VR (Alternatives to Clearfell in oldgrowth)	195 (\$1m in long term)	
Public road access	1,250	
Forest research	956	
Function of government	120	
Conservation of natural and cultural values	3,906	
Section 22AA Forestry Act	10,000	
Fire protection	3,850	
Special Timbers and Apiary management	100	
Meander Dam	420	21,247
		<u>25,895</u>

NB: In the longer term VR costs are estimated at \$1m per annum

Effects of Statutory Restrictions on FT Performance

Background

The Forestry Act constrains FT to supply at least 300,000 m³ annually of high quality sawlog, and State policy requires a shift to non clearfall silviculture in oldgrowth forest. We have sought to demonstrate the effect of these constraints on FT performance.

Method

Two alternative wood flows and valuations were undertaken for FT's eucalypt native forest and eucalypt plantations, using the same models and data as the published 2009 forest valuation. The following constraints were removed:

- 300,000 m³/year or eucalypt high quality sawlog
- oldgrowth harvest (variable retention) minimum levels

The following constraints were applied to keep the outcomes within realistic operational, market and longer term sustainability bounds:

- minimum harvest volume of 100 tonnes/ha
- total woodflow between 2.5 – 3.5M t/year (Alt. Woodflow 54)
- total woodflow between 2.5 – 5.0M t/year (Alt. Woodflow 53)

Results

Details of valuation results for each scenario are detailed below, and can be summarised as follows:

Woodflow Model	Eucalypt Forest Valuation (\$M)	10 Year Av. Revenue (\$M)
Original 2009	254	57.9
Alt. Woodflow 54	325	68.2
Alt. Woodflow 53	359	68.4

Based on Alt. Woodflow 53, average revenues over the first 10 years increase by \$10.5M, and the forest valuation increases by \$103M. Note that the model incorporates cost estimates, but may not full capture some cost movements associated with higher activity levels (e.g. roading). It is assumed this does not alter the general conclusions, although it may over-state the adjusted EBIT position.

Using 2009 base data for total assets and EBIT, the following ROA estimates would result:

Woodflow Model	Total Assets (\$M)	EBIT (\$M)	ROA
Original 2009	928	10	1.1
Alt. Woodflow 54	928 + 71 = 999	10 + 10.3 = 20.3	2.0
Alt. Woodflow 53	928 + 103 = 1031	10 + 10.5 = 20.5	2.0

Original valuation - from fvm

Forest Valuation 2009

currentValuation	DisplayName	Valuation
	2009 FT Native Forest	167,339,063
	2009 FT Hardwood Plantation	87,034,300
	2009 FT Softwood Plantation	3,866,009
	2009 FT Rainforest and Understory sp	3,473,717
	2009 FT Native Blackwood	5,404,466
	2009 FT Plantation Blackwood	402,998
	2009 Norske Skog Softwood Plantation	6,497,533
	2009 JV Hardwood Plantation	6,785,824
	2009 JV Softwood Plantation	2,903,623
TOTAL Forest Asset		293,707,533

254,373,364

53

Alternative Woodflow 2.5-5M gmt/yr

currentValuation	DisplayName	Valuation
	2009 FT Native Forest	\$294,130,012.31
	2009 FT Hardwood Plantation	\$62,553,170.42
	2009 FT Softwood Plantation	\$3,866,008.84
	2009 FT Rainforest and Understory sp	\$3,473,716.73
	2009 FT Native Blackwood	\$5,404,465.61
	2009 FT Plantation Blackwood	\$402,997.53
	2009 Norske Skog Softwood Plantation	\$6,497,533.34
	2009 JV Hardwood Plantation	\$6,785,824.05
	2009 JV Softwood Plantation	\$2,903,622.96
TOTAL Forest Asset		386,017,352

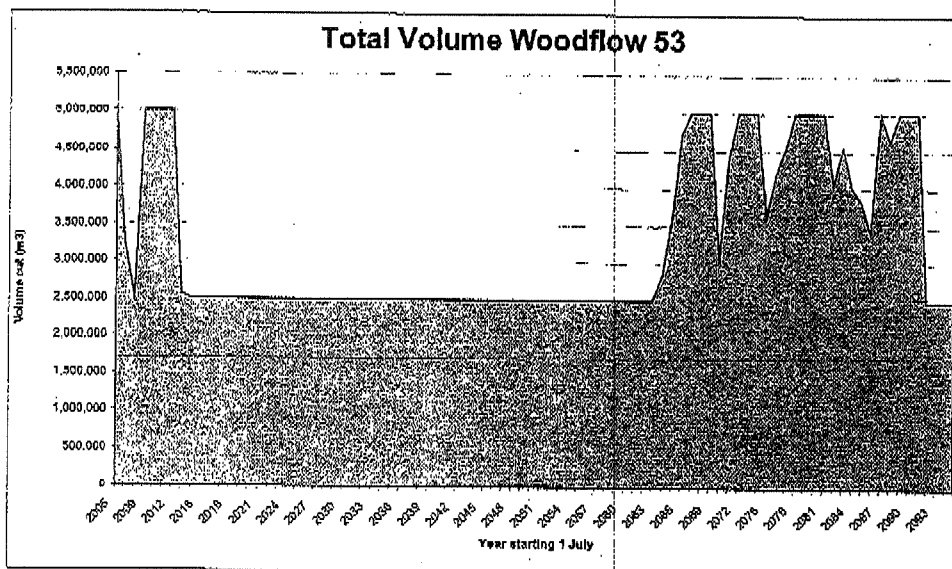
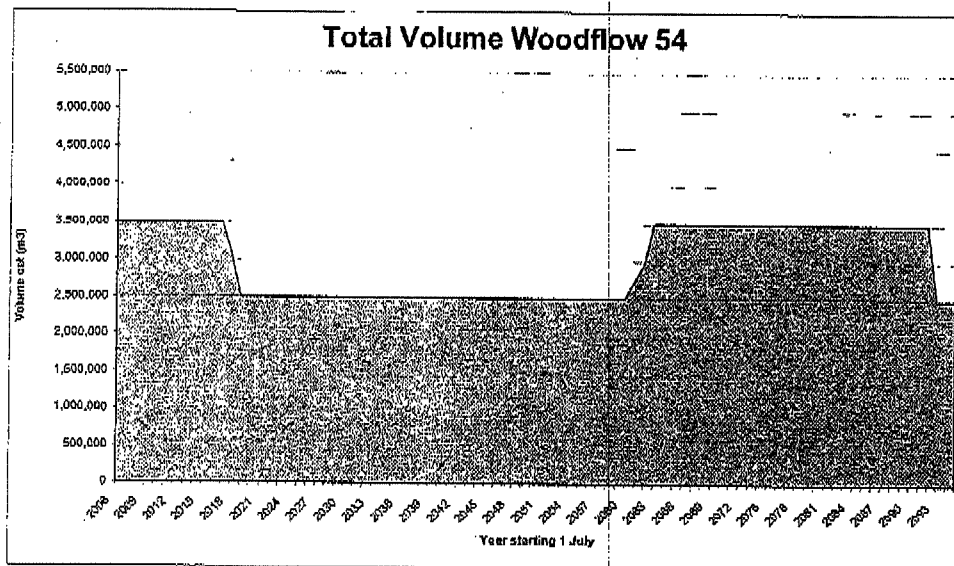
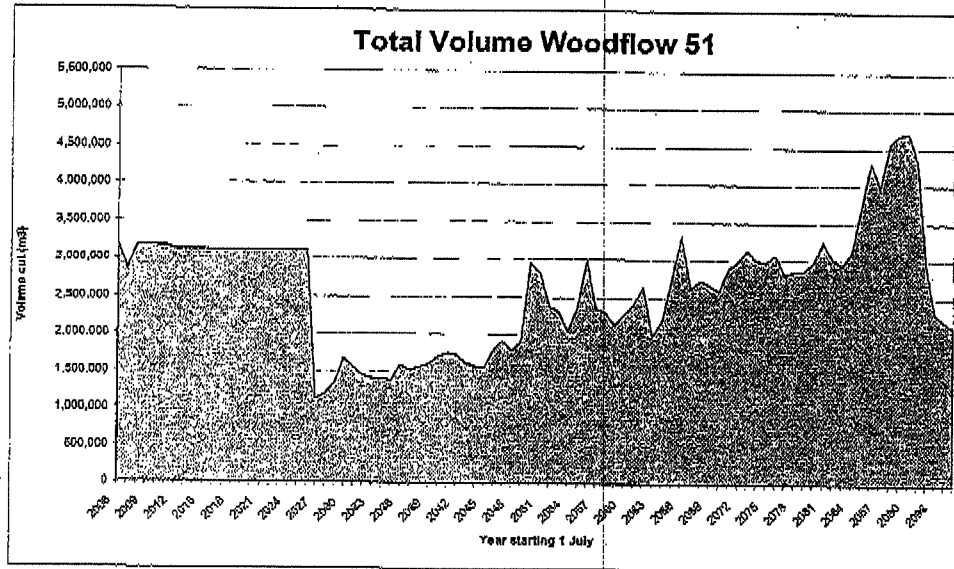
356,683,183

54

Alternative Woodflow 2.5-3.5M gmt/yr

currentValuation	DisplayName	Valuation
	2009 FT Native Forest	\$261,462,805.06
	2009 FT Hardwood Plantation	\$63,750,803.19
	2009 FT Softwood Plantation	\$3,866,008.84
	2009 FT Rainforest and Understory sp	\$3,473,716.73
	2009 FT Native Blackwood	\$5,404,465.61
	2009 FT Plantation Blackwood	\$402,997.53
	2009 Norske Skog Softwood Plantation	\$6,497,533.34
	2009 JV Hardwood Plantation	\$6,785,824.05
	2009 JV Softwood Plantation	\$2,903,622.96
TOTAL Forest Asset		354,547,577

325,213,408



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LEGISLATIVE COUNCIL
PARLIAMENT HOUSE
HOBART, TASMANIA 7000

2 December 2009

GOVERNMENT BUSINESS SCRUTINY COMMITTEE 'A'

The Hon. David Llewellyn MP
Minister for Energy and Resources
1st Floor
Franklin Square Offices
HOBART 7000

Dear Minister

2009 HEARING

Thank you for attending the hearing before the Committee on Tuesday, 1 December 2009 in your capacity as the Minister responsible for Forestry Tasmania, Hydro Tasmania, and Transend Networks Pty Ltd.

Please find enclosed a copy of the transcript of the evidence produced by *Hansard* relating to the three government businesses for which you are responsible. The transcripts are also available on the Parliament House website at www.parliament.tas.gov.au.

The Committee made several requests for information during the hearing relating to Forestry Tasmania. Please provide the Committee with information addressing the following:


1. The cost to Forestry Tasmania in the 2008-09 financial year of providing its community service activities including but not limited to fire fighting, reserves management, roads maintenance, research and tourism. Please list the cost of each individual community service activity as subtotals together with the total cost of all community service activities.
2. The documents and any other information provided by Forestry Tasmania to the Auditor-General in relation to the examination by the Auditor-General of Forestry Tasmania's community service activities.
3. A numeric breakdown of the total Full Time Equivalent Forestry Tasmania employees by sectors of the Forestry Tasmania business, including the number of Forestry Tasmania employees who work in public relations, Government relations and corporate relations.
4. How much funding remains in the Tasmania Community Forests Agreement fund and when this funding is expected to be fully expended?

Due to the forthcoming election and the likelihood of prorogation of the Legislative Council in early February 2010, the Legislative Council ordered the committee to report by no later than Wednesday, 23 December 2009.

Given the above I would appreciate it if you would provide the requested additional information by no later than Thursday, 10 December 2009.

If you or your staff have any questions regarding the above please contact the Committee's Secretary, Mr Nigel Pratt on (03) 6233 2333 or email nigel.pratt@parliament.tas.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'G. Hall', written over a horizontal line.

Hon Greg Hall MLC
Chair

Enc.: Transcripts of evidence