



# **The Australian Workers' Union**

## **Position Paper on the Proposed Restructuring of Forestry Tasmania**

## **Background**

The Australian Workers' Union (AWU) represents 110 of Forestry Tasmania's 329 full time equivalent (FTE) employees. The Administrative, Technical and Managerial employees are represented by the Community and Public Sector Union (CPSU).

The AWU has held worksite meetings with members to discuss the URS Strategic Review of Forestry Tasmania and the Tasmanian Government's adoption of the consultant's recommended Option 2 model.

These worksite meetings and our members' feedback have been used to inform this position paper, and importantly, our view that the proposed re-structure of Forestry Tasmania contained in the URS report is ill conceived and unworkable and will compromise the safety of people and property and as such would be a negligent act.

The purpose of this position paper is to develop an alternative model that will secure:

- The safety of people and property,
- the employment of Forestry Tasmania staff;
- a robust GBE capable of assisting the forest industry to recover from the current downturn, and of providing it with protection from ongoing market attacks;
- the most cost effective management of the 1.5 million hectare State forest estate;

## **Executive summary**

In preparing this position paper, the Australian Workers' Union has:

- consulted its membership within Forestry Tasmania;
- considered the Report on the Royal Commission into the 2009 Victorian Bushfire Disaster
- considered Stage 1 and Stage 2 of the URS Strategic Review;
- considered the Ministerial Statement concerning the proposed restructure of Forestry Tasmania;
- considered the Auditor General's Special Report no.100 on Forestry Tasmania;
- considered the Auditor General's Special Report no 99 on Fire Management
- considered The Report of the Legislative Council, Government Administration Committee "A" ,Inquiry into Forestry Tasmania Financial Performance
- considered the current state of the timber industry; and
- assessed future growth options for the future of the timber industry.

The AWU's members within Forestry Tasmania generally work in the forests and therefore have a practical, rather than theoretical, understanding of how the 1.5 million hectare State forest estate is managed 'on the ground'. These members were not consulted in any of the reviews undertaken by URS– an oversight that has led to recommendations that are unworkable, impracticable and more expensive than the current Forestry Tasmania structure and a serious threat to asset protection and public safety.

**Based on its analysis, the AWU makes the following conclusions:**

1. AWU members employed by FT are engaged in the management and supervision of plantation establishment, the cultivation of forests including weed and vermin eradication, the construction and maintenance of roads and other infrastructure in state forests, the development of harvesting plans, the supervision of harvesting operations, the maintenance of plant and equipment;
2. The work of our members consists of activities which are both commercial and non-commercial. The mix varies from time to time but segregation of those functions is not a practical proposal;
3. The employees engaged in Fire management and fire suppression activities are principally those referred to in point 1 above;
4. The cost of fire management and suppression activities have been funded by Forestry Tasmania with no community service payment
5. The URS proposal to segregate commercial and non-commercial activities proposes unnecessary duplication and complex structures which will impede the effective management of state forests and fires suppression and management activities;
6. The effect of impeding the efficient suppression and management of firefighting activities poses a substantial threat to the safety of firefighters, the public and property and would therefore be an act of gross negligence contrary to the Public interest;

7. The URS proposal does not provide financial justification for the segregation other than a cost shifting arrangement from FT to a Government department;
- 8 The most effective and least disruptive manner in which to respond to the current difficulties facing FT would be to make a CSO payment to FT. The URS report seems to quantify the community service activity of FT at between \$17mil to \$19 mil annually.
- 9 In the alternate if point 8 is not acceptable the non production forests only should be transferred to a government agency with that agency entering into a long term management agreement with FT. That agreement should provide for an annual payment of 17 mil for the performance of forest management and Community Service Obligations (CSO).

## **The current business model of Forestry Tasmania**

On 1 July 1994, Forestry Tasmania commenced operations. The former Forestry Commission had been disaggregated, with its functions separated into State forest management (Forestry Tasmania), private forest policy (Private Forests Tasmania), environmental regulation on State and

private Forests (Forest Practices Board) and forest policy(Department of Infrastructure, Energy and Resources)<sup>1</sup>

Its vision, as described in 1995,was that Forestry Tasmania ‘will be an internationally competitive forest manager, with its operations based on sustainable, multiple use forest management and recognised for excellence in research, enterprise and forestry practises’ <sup>2</sup>

The company’s purpose, or mission, was described as being ‘the sustainable production and delivery of forest goods and services for optimum community benefit using environmental best practice to create long term wealth and employment for Tasmanians” <sup>3</sup>

It is responsible for the management of approximately 1.5 million hectares of State forests and plantations.<sup>4</sup> The distribution between production forests and non production forest has been significantly altered since the creation of Forestry Tasmania

In 1997, the commencement of the regional Forests Agreement(RFA) meant Forestry Tasmania lost 57,000 hectares of harvestable forest.<sup>5</sup>

In 2005, the Tasmanian Community Forest Agreement(TCFA) resulted in additional reserves being added for conservation purposes, restrictions on

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<sup>1</sup> The Report of the Legislative Council, Government Administration Committee “A”, Inquiry into Forestry Tasmania Financial Performance, p 18.

<sup>2</sup> Ibid

<sup>3</sup> Ibid

<sup>4</sup> Auditor General’s Special Report no.100 on Forestry Tasmania, p 2

<sup>5</sup> The Report of the Legislative Council, Government Administration Committee “A” ,Inquiry into Forestry Tasmania Financial Performance, p19

clear felling and changed harvesting techniques. The area of additional reserves was approximately 360,000ha.<sup>6</sup>

By the time the URS review was released Non Production forests accounted for approximately 700,000 ha, Production Forest 685,000 ha including speciality timbers 77,000 ha.<sup>7</sup>

The Auditor General in his special report on Forestry Tasmania found that, Forestry Tasmania *“received no specific funding over the 16 year period of this audit. However it must have incurred expenditure annually to satisfy its responsibilities under section 10(1) {of the Forestry Act 1920} with these costs likely to have increased as additional forests were added to reserve”*<sup>8</sup>

The report also found *“The nature of the forestry business makes annual assessments of financial performance difficult and applying conventional rates of return such as the government bond rate may lack relevance. There is therefore a need for Forestry to develop a rate of return philosophy acceptable to its owners and the community. However, rates of return achieved by Forestry may have been very different had CSOs been funded”*<sup>9</sup>

The AWU members employed by Forestry Tasmania manage plantation establishment, conduct vegetation and vermin management, conduct regeneration burns, construct and maintain roading and other infrastructure, prepare harvesting plans, supervise harvesting, and participate in the management and suppression of wild fires. Recent consultation with our

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<sup>6</sup> Ibid p21

<sup>7</sup> Strategic Review of Forestry Tasmania (redacted), URS Stage 1 Report, p4

<sup>8</sup> Auditor General's Special Report no.100 on Forestry Tasmania p7

<sup>9</sup> Ibid p5

members have confirmed that in performing these functions the distribution of functions between commercial and non commercial activities varies from year to year and season to season. The range and distribution of these functions are directly impacted by both climatic and economic factors. The non commercial activities have been funded from the sale of timber.

The machinery used for the construction and maintenance of roads are excavators, graders, bulldozers water carts and dump trucks. With the exception of graders that machinery is also used for effective wildfire suppression.<sup>10</sup> That plant when used in forest activities is required to have Falling object Protection(FOP's) and Roll Over Protection(ROP's).In addition special licensing arrangements exist for the use of such plant in forests and forestry related activities. Heavy equipment needed for fire suppression must have FOPs' and ROPs' The integrated nature of the performance of the fire related and non fire related functions supports the conclusion that the most efficient and cost effective model of managing state forests is with an integrated workforce. At no stage of the URS review were our members consulted by URS about the strategic review.

URS has failed to fully consider the management of the 14,000-kilometre road network currently maintained by Forestry Tasmania.

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<sup>10</sup> This is during the normal commercial periods of activity. During consultations with our members the union was advised that such activity has been seriously impeded by the Statement of Principles/Intergovernmental Agreement process. As a consequence access to heavy equipment for fire suppression activities through both Forestry Tasmania and harvesting contractors is fundamentally compromised and an imminent disaster waiting to happen.



About 5,000 kilometres of that network is within the 572,000 hectares reserve claim being considered under the Tasmanian Forests Intergovernmental Agreement.

Forestry Tasmania spends between \$15M and \$22M a year on road construction and maintenance. In order to conserve cash, for the last 12 months Forestry Tasmania has implemented a policy of maintaining only those roads essential for forest management. Numerous communities are now coming to terms with well-used forestry roads, which also service tourism and recreational sites, slowly falling into disrepair. For example, Coolangatta Road on Bruny Island and the Wielangta Road lining the Tasman Peninsula to the East Coast.

There's no apparent strategy for dealing with this problem. The AWU understands the government wishes to transfer this road network to the Department of Infrastructure, Energy and Resources. It apparently appreciates that as soon as these roads are no longer on State forest land, they will need to be upgraded to State road standards. This will involve prohibitive cost. Not only will the road surfaces have to comply with state road standards, but road furniture such as signs, guide rails, etc., will need to be installed. Given the prohibitive cost and the ailing state of the budget, the government's only real alternative will be to close many of these roads. Access for bee-keepers to leatherwood stands will be severely restricted.

There appears to be no consideration by the URS review of the seriousness of this problem.

The artificial segregation between commercial and non commercial forests proposed by the URS report should not be based on the separation of functions of the workforce as detailed in the stage 2 report. The AWU believes that if changes are to be made to the current structure then such new structure must be robust enough to ensure the responsible management of both non-production and production forest and also protect the public interest with an effective fire suppression function. The union believes only an integrated land management workforce can deliver such an outcome in a manner which is both efficient and effective

## **Conclusion**

- 1 AWU members employed by FT are engaged in the management and supervision of plantation establishment, the cultivation of forests including weed and vermin eradication, the construction and maintenance of roads and other infrastructure in state forests, the development of harvesting plans, the supervision of harvesting operations, the maintenance of plant and equipment;**
- 2 The work of our members consists of activities which are both commercial and non-commercial. The mix varies from time to time but segregation of those functions is not a practical proposal;**
- 3 The employees engaged in Fire management and fire suppression activities are principally those referred to in point 1 above;**

- 4 The cost of fire management and suppression activities have been funded by Forestry Tasmania with no community service payment
- 5 The URS proposal to segregate commercial and non-commercial activities proposes unnecessary duplication and complex structures which will impede the effective management of state forests and fires suppression and management activities;

## Protection from wildfires

*“FT has particular and unmatched expertise and capacity within Tasmania for managing fire prevention and suppression within forests. This expertise and capacity is spread across the corporate and the regional/district structure within FT, and the range of functions currently undertaken by FT”<sup>11</sup>*

Based on past history, Tasmania can expect, on average, a devastating regional scale fire every 40 years or so. *Mega-Fires* occurred in 1898, 1934 and 1967.<sup>12</sup> That Tasmania has not had such a fire since 1967, despite many smaller fires occurring, is testimony to the ability of fire and land management agencies including Forestry Tasmania, which have generally had the resources and capacity to judiciously manage fire within forested landscapes.

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<sup>11</sup> Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, p85

<sup>12</sup> *Mega-Fires* are fires that exceed all efforts at control, regardless of the type, kind, or number of firefighting resources deployed. These fires represent only 0.1% of all forest fires, yet account for 95% of the area burnt and 85% of the total fire suppression costs. They often burn into the urban interface zones. Bartlett et al, 2007, *The Mega-Fire Phenomenon: Some Australian Perspectives*. IFA Conference.

Fires occur when four factors exist: sufficient fuel, appropriate weather conditions (heat and wind), oxygen and an ignition source (lightning, arson or carelessness). Fuel is the only variable that human activity can influence reliably- reduce the available fuel load and modify its distribution in the landscape and you reduce the severity of a wildfire event.

All fires begin as a small fire, and increase in intensity and area where adequate fuel, oxygen and weather conditions exist. Many fires do not threaten life or property as they naturally extinguish, or are quickly contained and extinguished. However, the reality is that all fires have the capacity to become uncontrolled events. The risk of such is reduced where suitable detection and suppression capacity exists.

Tasmania's capacity to respond to campaign wildfires is enhanced through the capacity and resources available through FT, and the broader forest-based workforce. These resources include heavy machinery such as dozers, excavators, trucks and water carrying vehicles, as well as personnel who are experienced in operating and maintaining such equipment in remote and variable topography, and in dangerous situations. FT's Field employees are the backbone of the Tasmanian forest fire fighting resource and possess the intimate landscape knowledge required when responding to dynamic fire events.

Active forest management is more likely to result in reduced adverse impacts on life, community assets and forest values than fires which occur under a regime of passive land management. Successful fire management incorporates strategies for prevention of, preparedness for, suppression of, and recovery

from wildfires. The 2009 Victorian bushfires highlighted how the accumulation of fuel, resulting from passive management, reduced prescribed burning (often related to smoke management concerns), and conservation philosophies combined with increased urbanisation to result an intensification of fire extent and severity.<sup>13</sup>

The ongoing application of effective fire management strategies will depend on effective, integrated and well maintained infrastructure (access roads and bridges, water access, emergency meeting points, etc); targeted prescribed burning regimes; and the availability of competent, highly-trained and experienced personnel with local knowledge. If fire management capability is reduced, there inevitably will be an increase in wildfires and far greater damage to community and forest values as fires which would once have been controllable, become uncontrollable.

The experiences in mainland States has demonstrated that incorporating/transferring State forest assets into the reserve estate is invariably accompanied by a withdrawal of active forest and fire management. The impact of these changes has been well documented. For example, the Esplin *Inquiry into the 2002-03 Victorian Bushfire* acknowledge this trend, noting it there was “*either a reduction in resources for the delivery of burn programs (for example, a reduction to staff numbers and budget) and/or a strategic diversion of resources to other activities deemed to be more important*”.<sup>14</sup>

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<sup>13</sup> IFA ,2009,Submission to the 2009 Victorian Bushfire Royal Commission, Institute of Foresters Australia

<sup>14</sup> Reports of the Inquiry into the 2002-03 Victorian Bushfires, chaired by Bruce Esplin p96 S10.36

Tasmania's Interagency Fire Management Protocol is widely acknowledged as Australia's best. There is a high level of cooperation between the Tasmanian Fire Service (and its volunteers), the State's main forest fire fighting organisation, Forestry Tasmania, and the smaller team of specialists in remote area fire fighting at Parks and Wildlife.

The Protocol that enables the three agencies to work together is admired throughout the country – particularly in states where communication between fire fighting agencies has broken down with horrific results in times of crisis. However, in the absence of adequate resourcing the protocol will be ineffective.

It is inconceivable that a consultant would put this arrangement in jeopardy by transferring forest fire fighting management out of Forestry Tasmania and into DPIPW. Under the model proposed, fire management would sit in a government agency, while the fire fighters and their equipment would remain at Forestry Tasmania. This is a recipe for disaster.

If the government accepts Option 2, fire managers will be transferred from Forestry Tasmania to DPIPW. The only time they will be in contact with the actual fire fighters at Forestry Tasmania will be when the state is facing a catastrophe. Break down in communications is inevitable. Fire management and suppression is a critical function for both the protection of people and private property as well as the protection of Forest Assets

In the unions view such an approach would potentially undermine the safety of firefighters, public safety and provide for unnecessary exposure to wildfire

hazard. The implementation of such a structure and the potential risk to the safety of firefighters, the public and property would be an act of gross negligence.

The term of reference for the URS review was concerned with a narrow view of Forestry Tasmania and ignores the larger public interest consideration which arises as a consequence of Forestry Tasmania Fire management and suppression activities.

One reason Forestry Tasmania's fire management works so well is that vehicles and equipment that are normally used for forestry activity are converted to fire fighting vehicles in summer, and staff that do other jobs are also trained to fight fires when and if they occur.

This cost effective, and very pragmatic approach, will be lost under the proposed changes. The inevitable result will either be the loss of a significant component of Tasmania's fire fighting capacity, or alternatively, DPIPWE being required to invest millions of dollars in new equipment, and to have fire fighters standing around for most of the year waiting for a fire to happen. The unions understanding is that each fire fighter with equipment costs \$106,000 a year.<sup>15</sup>

The historical impacts of wildfire demonstrate that the loss of life and property can be significant, even for relatively small events.

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<sup>15</sup> Jeffreys', 2012, Testimony at the Legislative Council, Government Administration Committee "B", Thursday 17<sup>th</sup> May 2012

The following examples provide an overview of such impacts within the Tasmanian context, and reflect differences in scale and approach, including megafire (1967), medium (1982) and large (2006).

- 1967      265 000 ha burnt, 62 deaths, 900 injuries and over 7 000 people made homeless. Assets lost included 3 000 buildings (including 1 293 homes) destroyed, 80 bridges and thousands of power poles required replacement, 1 500 vehicles lost, and 5,400km of farm fences. Stock losses were estimated to include 500 horses, 1350 cattle, 60 000 sheep, 24 000 chickens, and 600 pigs. The loss of wildlife is unknown. Original total estimated cost was approx \$45M and insurance loss was \$14M, both in 1967 values (est. over \$100 million in current value).<sup>16</sup>
- 1982      5,000 ha burnt (Kempton), one death (a firefighter), two serious injuries, two houses, six shacks and 38 farm outbuildings were destroyed. Stock losses included 3 000 sheep. Insured losses were \$5.35m (1982 values).<sup>17</sup>
- 2006      28 000 ha burnt (Scamander) 26 houses, 24 large workshops, a caravan, and a wrecking yard and 72 vehicles destroyed, along with power lines and mobile communications. The TFS report that total operational commitments extended over 152 days. Forestry Tasmania lost about \$50 million worth of production timber and

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<sup>16</sup> <http://www.royalcommission.vic.gov.au/getdoc/a0840c4d-9afa-461b-884f-fbfb0c008b06/RSCH.030.001.0122.pdf>

<sup>17</sup> [State Fire Commission Annual Report 2006/2007.](http://www.fire.tas.gov.au/Show?pageId=colAnnualReports)  
<http://www.fire.tas.gov.au/Show?pageId=colAnnualReports>



approximately 1 000 ha of Forest Reserve was burnt.<sup>18</sup> Over \$1.8 million was spent on recovery initiatives under the East Coast Bushfire Appeal.

While technological and awareness programs may decrease the impacts of wildfire events on life, property impacts remain high. This is further compounded by the expansion of, and emigration into, rural and regional communities, combined with increased infrastructure and service requirements (such as water treatment plants, telecommunications, and electricity systems), and higher capitalisation costs. Consequently and when compared to historic events, wildfires are likely to result in higher commercial losses associated with asset damage and replacement requirements.

If the reforms proposed by URS go ahead, Tasmania's exposure to a mega-fire will become steadily worse as the years go by. The implementation of any restructure which ignores this consideration will leave the protection of forest assets, firefighters and public safety a hostage of fortune, and may expose the Government to liabilities.

## **Conclusion**

**6 The effect of impeding the efficient suppression and management of firefighting activities poses a substantial threat to the safety of people and property and would therefore be an act of gross negligence contrary to the Public interest;**

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<sup>18</sup> <http://www.royalcommission.vic.gov.au/getdoc/36b692bd-8efe-4289-abb3-7cf49fb13e3a/RSCH.030.001.0158.pdf>

## **Terms of Reference for the Strategic Review of Forestry Tasmania**

The Department of Treasury and finance sought options and recommendations from URS on the following elements;

### *“Business Model and Operations*

- 1. Asses Forestry Tasmania’s current business model and financials and identify any key deficiencies and risks to Government, including loss of value, particularly in the context of proposed and emerging industry and market changes.*
- 2. Consider the benefits and costs of Forestry Tasmania managing the forests for multiple uses and pursuing activities outside of core forestry management and production roles.*
- 3. Consider the importance of certification for forestry Tasmania’s products*

### *Market Conditions*

- 4. Examine the scenarios and impacts of the Statement of Forest Principles on Forestry Tasmania*
- 5. Assess the lessons learned from other jurisdictions that have faced similar precedents for industry restructure; or are currently considering those options.*

6. *Consider changes to the level of local demand for sawlogs, their end use and the continued requirement for a guaranteed supply level and implications of the legislated target in terms of forest planning and effect on supply and demand dynamics in the local market*

### *Structure and Governance*

7. *Examine and assess the relevance of existing structures. Functions and governance framework options for Forestry Tasmania, in the context of the proposed and emerging changes to the industry.”*

## **Proposed restructuring options considered by URS in its Stage 2 report**

URS considered the following three options in its Stage 2 report:

**Option 1:** The existing integrated forest management structure with several enhancements

**Option 2:** Separation of Forestry Tasmania’s commercial and non-commercial functions – with Forestry Tasmania to remain a commercially focused GBE and all non-commercial functions transferred to government departments

**Option 3:** Forestry Tasmania to be fully integrated into a government department.

## Analysis of the URS Reports

### Key points made in the URS Stage 1 report

- (i) The terms of reference required URS to “work closely with Forestry Tasmania”.

***Comment:** There is no evidence this occurred. The workforce was not consulted and the management cooperated with the review by providing data, but was not asked for its opinion or views. This failure to consult the most knowledgeable stakeholders is a fundamental flaw.*

- (ii) In most cases, the report simply expresses URS’s opinion. The report contains little information that would enable a reader to verify whether the assumptions and judgements made by URS arose from independent research, or were prejudiced by the circumstances in which the report was prepared.
- (iii) In summarising the Stage 1 report, URS lists nine key findings. To the extent that these provide a foundation for the findings in the Stage 2 report, each is worth reviewing.
  - (a) Financial viability is a key limiting factor, when comparing alternative business models.
  - (b) Key limitations to Forestry Tasmania’s ability to generate a net positive return to the State are Community Service Obligation (CSO) costs,

depressed markets and limited market access, and the immature hardwood plantation estate.

**Comment:** *The options considered in the Stage 2 report do not address any of these, other than the extent to which CSO costs are absorbed elsewhere in government under Options 2 and 3 (leaving no net advantage to government). This key limitation could just as easily be addressed by the government providing CSO funding to Forestry Tasmania under the status quo.*

- (c) Some model options have the potential to provide better financial performance.
- (d) Models that separate commercial and non-commercial functions have the most potential to provide stronger financial performance.

**Comment:** *This refers to the financial performance of Forestry Tasmania, but not to the net impact on taxpayers (see (5)). It also ignores the practical day to day non segregation of employees duties between commercial and non commercial functions.*

- (e) Separating the commercial and non-commercial functions will leave the government with the significant cost burden of non-commercial functions and forests.

**Comment:** *In other words, taxpayers will have to pick up the bill for community services, including reserve management, and fire suppression*

*activities previously undertaken by Forestry Tasmania using the proceeds from timber sales.*

- (f) Key changes to the existing model could result in improved financial performance.

**Comment:** *The report seems to be an exercise of “smoke and mirrors” with net cost to the state of Tasmania in the short term, not fundamentally altered by the adoption of Option 2.*

- (g) Integrated management models have the benefit of providing efficiencies to the State, in terms of the direct cost of non-commercial activities.

**Comment:** *The status quo is, presumably, an example of just such an integrated management model, and yet the status quo was one option not considered by the consultant. This is another fundamental flaw.*

- (h) Other key considerations are clarity of purpose, government’s exposure to commercial risks and the transition costs.

**Comment:** *The first two of these can be addressed adequately under the status quo and the third of these is the significant cost of any change to the status quo.*

- (i) Withdrawal from commercial activities in native forests will result in very significant economic costs.

**Comment:** *There can be little doubt of this! It is therefore worth considering the extent to which each of the three options represents a threat that commercial activity in native forests might be forced to cease. If this factor were used to rank the three options from least risk to most risk, then Option 1 is preferable to Option 2, which in turn is preferable to Option 3.*

### **Key points made in the URS Stage 2 report**

(j) The industry is continuing to experience considerable uncertainty and buffeting.<sup>19</sup>

**Comment:** *There is no suggestion in the report that any of the options, including Option 2, will enable the industry to better withstand the market difficulties to which URS refers.*

*The Southwood sawmill, to which p. 6 refers, recommenced operations in July 2012. The footnote on p. 6 is incorrect at the date of the URS report (10 August 2012).*

(k) URS does not consider the carbon market to be a material source of income arising from forest management in the next three to five years.<sup>20</sup>

**Comment:** *Agreed. The case for reserving more forests to earn carbon funds is therefore discredited. The trees are not worth more standing as claimed by the Greens and ENGOs.*

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<sup>19</sup> Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, p vi and pp 5-7  
<sup>20</sup> ibid p.vii, pp.8-11

- (l) Stakeholder consultation recognised that industry will need to continue to respond to change.<sup>21</sup>

**Comment:** Presumably, therefore, a preferred position would be one that enabled Forestry Tasmania to continue to be able to respond most quickly and most effectively to change. It is not clear that this ability to respond to change has been applied to the comparison of the three options, nor to the preference for Option 2 over either of the other options (or over the status quo).

The discussion about the future contribution of the hardwood plantation resource, <sup>22</sup>indicates that there may be good reason not to pursue the Government and the Greens' publicly stated preference that native forests be managed by the Department of Primary Industries, Parks, Water and Environment (DPIPWE). If the ongoing viability of the State's forest industry is important, and if the hardwood plantation resource does not fully substitute for high quality native forest sawlogs, then Forestry Tasmania cannot afford the risk of interference in the supply from native forests (e.g. if DPIPWE is controlled by an unsympathetic minister).

The concern of some stakeholders about sovereign risk <sup>23</sup> is not addressed elsewhere in the URS report. For example, this concern might be increased under those options that allocate responsibility for the management of wood production forests to DPIPWE rather than to Forestry Tasmania.

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<sup>21</sup> Ibid p.vii and pp.12-18

<sup>22</sup> Ibid pp.13-15

<sup>23</sup> Ibid pp.14 and 17



*Stakeholder concerns about Forestry Tasmania's role in downstream processing<sup>24</sup> indicate a degree of support for a short-term role to address market access issues, and identify the risk of crowding out private investment if Forestry Tasmania's involvement were to continue in the long term. Stakeholders' recognition of the valid short-term role for Forestry Tasmania in downstream processing has been ignored in public comment on the subject (e.g. in State Parliament on 29 August 2012).*

(m) Each of the three options considered has strengths and weaknesses.<sup>25</sup>

**Comment:** *This is also true of the status quo. URS does not specifically address the strengths and weaknesses of Forestry Tasmania's current structure, nor compare these with the identified strengths and weaknesses of the three options, although there is a suggestion that Option 1 is close to the status quo.*

*The only weaknesses attributed to the status quo (as Option 1) are the breadth of its commercial and non-commercial functions and their effect on the ability to conduct discrete segmented reporting, and to maintain a clear focus on primary objectives and core business capabilities.<sup>26</sup> At Item 4 on p. 26, the URS report acknowledges the significant extent to which these perceived weaknesses could be addressed within the existing structure, at minimal cost.*

*The discussion on weaknesses for Option 2<sup>27</sup> exposes a significant weakness, that the management of wood production forests by DPIPWE (as steward) would require a "clear focus and ongoing discipline to maximise the benefits" of this*

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<sup>24</sup> Ibid p 18

<sup>25</sup> Ibid pp 19-21

<sup>26</sup> Ibid p 19

<sup>27</sup> Ibid

*structure. The clear conclusion that can be drawn is that a move from the status quo to Option 2 simply substitutes one potentially unclear focus for another. In each case, the responsible entity is charged with managing some forests for wood production and others for preservation. It is far from clear that DPIPWE would be better able to manage this internal conflict than Forestry Tasmania. The same is, of course, true for Option 3.*

- (n) A particular weakness identified by URS for Option 2 is the challenge “of ensuring efficient coordination of the delivery of land management functions across State forests by separate responsible entities”.<sup>28</sup> Land management functions are the primary responsibility identified in the *Forestry Act 1920 (Tas)* (being “An Act to establish a Forestry corporation and to provide for the better management and protection of forests”).

**Comment:** *Therefore, it is difficult to understand why the government would prefer a structure that URS acknowledges will increase the risk to the delivery of those functions.*

- (o) Separating commercial and non-commercial functions will create greater transparency and accountability.<sup>29</sup>

**Comment:** *It is also true that URS acknowledges elsewhere <sup>30</sup> that Forestry Tasmania has achieved “significantly more granularity and transparency than would a commercial division operating under a larger Government department”.*

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<sup>28</sup> ibid p.vii

<sup>29</sup> ibid p vii and p.30

<sup>30</sup> Ibid p 76

*URS acknowledges<sup>31</sup> that any required improvement in transparency could be delivered under Option 1 (and, by inference, under the status quo).*

*URS does not indicate which aspects of the current accountability regime for GBEs (including Forestry Tasmania) might need to be improved.*

(p) All three options are expected to trade at a loss over the next five years.<sup>32</sup>

**Comment:** *Note, in particular, that the net result forecast for Option 2 is “slightly stronger than under Option 1” and that Option 1 appears little different to the status quo. Nick McKim has claimed in parliament that the Greens’ support for Option 2 is based on it being “a significant improvement” on the status quo. The URS report does not provide evidence for McKim’s statement that a change to Option 2 represents a significant improvement.*

(q) The forecast cash outcomes to government of Entity 2 under Option 2 ranges from -\$17 M to -\$19 M per year in the short-term to -\$22M to -\$30M per year in the long term.<sup>33</sup>

**Comment:** *URS hereby identifies the cost of the non- commercial functions undertaken by Forestry Tasmania since corporatisation in 1994. At today’s dollars, Forestry Tasmania has been subsidizing taxpayers by \$17M a year, and the cost will grow to \$30M. URS fails to use this information to estimate the position that Forestry Tasmania would have been in financially if the government had funded CSOs in accordance with the relevant provisions of the*

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<sup>31</sup> Ibid

<sup>32</sup> Ibid p. ix

<sup>33</sup> Ibid pp x and 51

*Forestry Act. This is a fundamental flaw in the argument from URS and from the government that a significant change to the current structure of Forestry Tasmania is warranted. All the government needs to do to maintain Forestry Tasmania's financial viability is to fully fund the relevant CSOs.<sup>34</sup>*

- (r) The forecast benefit arising from a transition to Option 2 may be less than \$1M per year over the next four or five years (i.e. \$1M to \$3M per year, less the cost of the consultancy itself and of the significant transition costs).

**Comment:** *This is clearly evident from Table 1 on p. x and Table 5-4 on p. 51, as follows.*

*The forecast net cash outcome of Option 2 over the period 2012/13 to 2016/17 is -\$18Mpa to -\$30Mpa. Once the cost of the consultancy and the transition costs are taken into account, it is unlikely that Option 2 will deliver gains of any more than \$1M per year – and more likely will cost taxpayers significantly more than retaining the status quo.*

*Note that the estimated transition costs have been redacted, but are described as “significant”.<sup>35</sup>*

*The URS report provides no basis for the government and the Greens' repeated claims that Forestry Tasmania is forecast to lose \$35M in 2012/13. More importantly, it provides no evidence that Option 2 will deliver a significantly better financial outcome than the status quo.*

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<sup>34</sup> see also Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, p.17

<sup>35</sup> Ibid p.xi

(s) **Comment:** URS specifically acknowledges that it has not incorporated the additional economic benefits to the State from additional value adding in the form of expanded veneer production.<sup>36</sup> It is significant that Forestry Tasmania has identified this very thing (i.e. expansion in veneer production and veneer downstream processing) as a key element of the scenario it presented to URS as the basis for its forecast financial performance.

(t) URS suggests (rightly) that Forestry Tasmania's existing business model and the resultant forecast net cash outcomes for government are sensitive to three key factors:<sup>37</sup>

- (i) sales of Category 1 and 3 sawlogs;
- (ii) USD/AUD exchange rates; and
- (iii) changes in harvest and transport costs.

**Comment:** However, the report does not indicate that any of the three options represents any improvement in sensitivity to these three key factors. In other words, neither Option 1, Option 2 nor Option 3 provide any better protection from the effects of adverse movements in these three key factors than the status quo.

(u) 2.12 Table 2 (p. xii)

**Comment:** For a modest increase in various intangible criteria (e.g. "clarity of purpose" and "transparency"), each of which is arguable, and for no significant

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<sup>36</sup> Ibid

<sup>37</sup> Ibid

*increase in financial viability, URS recommends Option 2 at a significant transition cost over the status quo (more or less represented by Option 1). Note, in particular, that URS says of Option 1 that it “has considerable merits and the capacity to deliver improved results ... and the proposed enhancements would be expected to deliver considerable benefit over time in corporate and commercial performance”.*

- (v) URS identifies four roles that “extend beyond industry functions”.<sup>38</sup> The four roles are:
- (i) maintaining the forest road network through State forests;
  - (ii) maintaining fire prevention and suppression capacity for forest fires;<sup>39</sup>
  - (iii) maintaining and promoting research and development applicable to the forest industry;<sup>40</sup> and
  - (iv) managing Tasmania’s appropriate use of specialty timbers.

**Comment:** *The risks that a change from the status quo (e.g. to Option 2) will lead to reduced “broader industry and public good benefits” in relation to these roles is not adequately addressed in the URS report.*

- (w) References to responsibilities for legislated wood supply and resource allocation, throughout the discussion on,<sup>41</sup> infer that the current approach to this function is flawed.

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<sup>38</sup> Ibid p.xiv

<sup>39</sup> see also Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, p.17

<sup>40</sup> see also Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, pp.17 and 18

<sup>41</sup> Strategic Review of Forestry Tasmania (redacted), URS Stage 2 Report, pp.21-38

**Comment:** *This inference seems to ignore the current “checks and balances” related to this function. In so doing, the URS report does not represent a strong argument for any change to these responsibilities. For the record:*

- (i) the process by which sustainable yield levels are determined is conducted by Forestry Tasmania each five years, using best practice scientific methods;*
- (ii) each such five yearly assessment of sustainable yield is reviewed by independent scientists;*
- (iii) the results of each such five yearly assessment are reported publicly; and*
- (iv) progress against the identified sustainable yields is reported to the public annually.*

*The Forestry Act 1920 (Tas) and, more particularly, the proposals under the Resource Security and Land Reservation (Tasmanian Forests Agreement) Bill 2012 (Tas), provide the means by which harvest levels are determined.*

*It is also worth noting that the Forestry Act has been amended in the past, specifically to reduce the opportunity for Ministerial interference in the allocation of public forest resources. Aspects of the reallocation of functions that is proposed in the URS report for each of the three options represent an increased risk of such Ministerial interference.*

- (x) **Comment:** The URS report does not identify the extent to which any assumed improvement in financial performance, relative to the status quo, results from assumed reductions in overall staff numbers. It could be that the government has redacted the relevant (see Appendix C), to obscure the fact that internal restructuring by Forestry Tasmania over the past two*

*years has already achieved the full amount of the assumed reduction in staff numbers and salary costs.*

## **Summary of URS report analysis**

The Tasmanian Government's acceptance of the URS recommended option:

- **Fails to deliver any savings to Tasmanian taxpayers and simply shifts the costs of non-commercial functions from Forestry Tasmania to the government.**
- **Fails to address any of the market issues that are currently affecting Forestry Tasmania's financial performance.**

## **Conclusion**

**The URS proposal does not provide financial justification for the segregation other than a cost shifting arrangement from FT to a Government department;**

## **The Australian Workers' Union's preferred model**

The AWU's primary objectives are secure employment for Forestry Tasmania staff, and the cost effective management of the 1.5 million-hectare State forest estate in order to ensure the long term security of employment.



Following the Ministers statement the union formed a preliminary view that the segregation proposed by URS was both flawed and naive. The union then embarked on a process of statewide consultation with our members and provided extracts of the proposed segregation, the implementation timetable contained in the report and the criteria and weighting applied by URS to support its “option 2”. Through consultation with our members it was the unions desire to endeavour to produce a model which was consistent with the governments decision to separate the commercial and non-commercial activities of Forestry Tasmania consistent with our objectives as detailed on page 2, of this position paper.

In the course of that consultation the was overwhelming and consistent feedback that included;

The functions of our members are integrated across both commercial and non-commercial functions; and

The mix and distribution of those functions vary from time to time and are directly impacted upon by both climatic and economic factors

No member could characterise their functions and duties fitting entirely within a commercial function or non-commercial function

There is a natural integration between the management and asset protection of both production and non production forests

The fire management and suppression activities are a natural and integrated part of both forest management and asset protection

The segregation proposed by URS was inefficient and potentially hazardous to both asset protection and safety

The AWU therefore believes that any separation of commercial and non commercial activities of Forestry Tasmania must recognise the fundamental linkages in functions performed in the management of production forests and non-production forests. The segregation based on function, as proposed by the URS report, fails to recognise the genuinely integrated nature of those functions. The union proposes an alternative model which is practical, responsible, and avoids the unnecessary duplication of function and additional levels of bureaucracy. The AWU believes that if changes are to be made to the current structure then such new structure must be robust enough to ensure the responsible management of both non-production and production forest, protect the public interest with an effective fire suppression function and that the structure should enhance the viability of the proposed commercial entity

## **Model 1**

Rather than the duplication and complexity proposed by URS the union believes the most appropriate and least disruptive approach would simply be to make a community service payment to Forestry Tasmania.

According to the Auditor General's Special Report 100; *"Forestry [ Tasmania..] needs to be able to demonstrate that it satisfies the requirements of the Forestry Act as these relate to its section 10(1) responsibilities and that it does so efficiently and effectively"*.<sup>42</sup>

*The specific requirements of section 10(1)'Additional functions and powers' are:*

- (a) The promotion and encouragement of the use of State Forests for purposes other than wood production, including in particular
  - (i) the conservation of flora and fauna; and*
  - (ii) the conservation of landforms ;and*
  - (iii) the conservation of cultural heritage; and*
  - (iv) the care of the environment including scenery; and*
  - (v) recreation ;and*
  - (vi )in the case of multiple forest land ,the exploration and development of mineral resources;**
- (b) The provision to the public of information and educational programmes on sustainable forest management;*
- (c) The maintenance of the Registrar of Multiple Use Forest Land under section 17;*
- (d) The management of forest reserves;*
- (e) The provision and maintenance of forest roads and other facilities for public access to and through state forest;*

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<sup>42</sup>

Auditor General's Special Report no.100 on Forestry Tasmania,p7

*(f) The provision and maintenance of recreation and public information facilities* <sup>43</sup>

*The Auditor General's report found;*

*"...our interpretation of section 10(1),.....is that Parliament ,by including section 10(1) in the Forestry Act, intended that Forestry [Tasmania.] should carry out these functions. Therefore, the exercise of these functions by Forestry [Tasmania] is not discretionary"* <sup>44</sup>

*The URS stage 2 report seems to quantify the value of community services at about 17mil to 19 mil annually* <sup>45</sup> *The URS report also found that*

*"The net cash position for government under option 2 [segregation] would be slightly better than option 1 [status quo]"* <sup>46</sup>

*And further that;*

*"All options are expected to incur net costs for government in the short term (next five years);however ,the net cash position is expected to improve in the medium to long term for all options"* <sup>47</sup>

Given the forecast for the medium to long term and the "slight" difference in the short term, having regard to the above the union believes the payment for community services provided by Forestry Tasmania in accordance with

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<sup>43</sup> Ibid p 84

<sup>44</sup> Ibid p 86

<sup>45</sup> Strategic Review of Forestry Tasmania (redacted),URS Stage 2 Report, p 51

<sup>46</sup> Ibid p 53

<sup>47</sup> Ibid

section 10(1) of the Forestry Act would be the appropriate response to short term challenges.

## **Model 2**

### **(a) Production forests**

If political considerations make the above model unacceptable and compel the notional segregation of Forestry Tasmania's commercial and non-commercial functions then such a segregation should ensure that it maintains the integrated land management workforce for all of the reasons discussed above.

The Tasmanian Forest Contractors Association and the Forest Industries association have expressed public concern that the Production Forests remain within the control of Forestry Tasmania. The AWU supports that view.

The AWU believes that sole management of production forests by Forestry Tasmania is essential to the security of employment for our members. The URS proposed model, under which coupes would be released by Parks and Wildlife to Forestry Tasmania for harvesting and regeneration, is an inefficient model which adds an unnecessary level of bureaucracy and duplication and exposes the Timber Industry to a level of ministerial interference which undermines resource security and potentially undermines the commercial viability of entity 1 going forward. It's a business model that leaves the commercial function without the flexibility to respond to market conditions. It also leaves

the forest management function vulnerable to any fringe environmental group with a local anti-forestry agenda.

Quite simply, it leaves Forestry Tasmania or its hypothetical successor with no resource security – and no viable means to move forward as a business.

It's a business model that's doomed to failure.

### **(b) Reserves management**

The union believes that the resources of DPIPWE are already strained and that the burden of managing an additional 800,000 hectares of non production forests at an annual cost of 17 million dollars together with the complex structures proposed by the URS report make such a proposition impractical and potentially contrary to the public interest.

The AWU, believes the transfer of reserves to DPIPWE in partnership with Forestry Tasmania management of those reserves is part of a more appropriate model for separating the commercial and non-commercial activities of Forestry Tasmania..

This proposal would satisfy the government's desire to separate the commercial from the non-commercial functions, without jeopardising the efficiencies and public safety consideration delivered by an integrated land manager

Under this arrangement, the Tasmanian and Australian Governments would be required to fund the management of these reserves under a Service Agreement with Forestry Tasmania on an ongoing basis – at the rate of \$7M

(indexed) per year, as promised in the Tasmanian Forests Intergovernmental Agreement.

All other community services performed by Forestry Tasmania, including fire suppression and prevention would be reimbursed by the Tasmanian Government. URS has identified the costs of these services at \$17M per year.

## **Conclusion**

- 8 The most effective and least disruptive manner in which to respond to the current difficulties facing FT would be to make a CSO payment to FT. The URS report seems to quantify the community service activity of FT at between \$17mil to \$19 mil annually.
- 9 In the alternate if point 8 is not acceptable the non production forests only should be transferred to a government agency with that agency entering into a long term management agreement with FT. That agreement should provide for an annual payment of 17 mil for the performance of forest management and Community Service Obligations (CSO).