

Hansard

Wednesday 29 August 2012

FORESTRY INDUSTRY AND FORESTRY TASMANIA

Ministerial Statement

[12.08 p.m.]

Mr GREEN (Braddon - Minister for Energy and Resources - Statement) - Mr Speaker, I wish to address the House today on the changing nature of Tasmania's forest industry and on the future of Forestry Tasmania in particular. The native forest industry has been undergoing fundamental change and, sadly, has experienced substantial job losses over recent years. Publicly available figures clearly show that between 2007-08 and 2009-10, production of native forest sawlogs and pulp logs from public and private forests in Tasmania fell by between 30-50 per cent, depending on the product. This trend of reduced demand is continuing.

This change is upon us for a number of reasons which are beyond the control of either the forest industry or state and commonwealth governments. A high Australian dollar and changes in local and international markets have been major contributing factors. We cannot responsibly ignore the market outcomes that have seen half the jobs and a third of the businesses in the native forest sector disappear in recent years. Governments have a responsibility to provide leadership to govern for the future and support the Tasmanian community and industry through turbulent times.

The people of Tasmania own the largest affected forestry business and that is Forestry Tasmania. I want a better outcome for the hundreds of Forestry Tasmania workers across the state and the many contractors and families that support the organisation. We owe them that and we owe them the certainty of their future. For the past 30 years they have borne the brunt of divisions that have divided our community.

I am certain that the majority of members would endorse my long-held belief in the high degree of professionalism of Forestry Tasmania staff. They are some of the best in the world in their field. They have all soldiered on, despite the rapidly changing environment in which they have been confronted. As a Labor government, we care about all those who are being affected by the changing world through no fault of their own.

Since its inception as the Forestry Commission with the Forestry Act in 1920, Forestry Tasmania as it is now has made an enormous contribution to Tasmania and our regional communities in terms of its commercial and non-commercial activities. Forestry Tasmania has been able to do this because it is a business model which has fitted the circumstances in which it has been operating.

As these circumstances change, the government as custodian of this important business on behalf of the Tasmanian people must ask itself if the existing model is the best approach for the future. We cannot seek to shield the organisation from reality or put our heads in the sand and hope that it all goes away. Avoidance does not assist the employees of Forestry Tasmania or the people of Tasmania. We cannot pretend that Forestry Tasmania is somehow

immune to the reductions in demand for its products at a scale not experienced by any government-owned business in living memory. This is not a time to paper over the cracks.

This issue is currently one of the largest budget risks faced by the Tasmanian government. The risk has the potential to not only affect the staff of Forestry Tasmania but also the commercial supply of wood to Tasmanian processors and the management of environmental values, reserves and recreational facilities and infrastructure in the state. As the responsible custodian of Forestry Tasmania, the government simply has to take action now.

As members would be aware, the government commissioned the independent consultants URS Australia Pty Ltd to undertake a detailed review of Forestry Tasmania to make recommendations to the government. The strategic review undertaken by URS was informed by the Auditor-General's report on the financial and economic performance of Forestry Tasmania and the Legislative Council's inquiry into Forestry Tasmania's financial performance.

Consistent with the drivers for these investigations, the government commissioned the strategic review in the context of a particularly challenging commercial outlook for Forestry Tasmania. The first stage of the strategic review, which was completed with an extract publicly released in February of this year, highlighted that Forestry Tasmania is likely to continue to face difficult trading conditions over coming years until demand for native forest fibre from China is expected to strengthen. The report also highlighted several factors making it difficult for Forestry Tasmania to adjust to changing circumstances. These included its legislation, the current business model, the need for clarification of its role in the industry and its inability to continue to self-fund the non-commercial activities it is required to undertake.

The first stage of the strategic review also identified and considered a number of broadly defined options to improve Forestry Tasmania's commercial and non-commercial outcomes. Following government's consideration of the stage 1 report, URS was asked to further evaluate three broad options as stage 2 of the strategic review process, which members can read about in detail based on the report I will table now.

In summary, the findings of the strategic review substantially echo those of the recent reports from both the Legislative Council and the Auditor-General, which found that Forestry Tasmania's current model is unsustainable. The URS stage 2 report confirms the prediction that Forestry Tasmania will face substantial cash deficits for at least the next five years if markets do not improve. Those losses are to be in the order of between \$20 million to \$35 million per year for the next five years.

Its key recommendation is that the best option for the future involves a transition away from the current integrated Forestry Tasmania model to focus on commercial forest management, with separate government departments being responsible for non-commercial activities such as the management of reserves. In short, the URS report found that continuation of the current organisational structure is unsustainable and that a functional separation of commercial and non-commercial operations offers the best way of managing both commercial infrastructure and environmental risks posed by the current market conditions for native forest products.

It is extremely important to understand that URS has found it is not a failing of the Forestry Tasmania board or its employees that has caused the financial difficulties being experienced by the business or the future risks that the business faces. It is important to note that URS do not predict that a transition to a new operating model will magically deal with the challenges facing Forestry Tasmania. Structural separation of commercial and non-commercial state forest management functions is preferred on the basis that it improves the potential for Forestry Tasmania, as a commercial entity, to best meet Tasmania's government business enterprise performance requirements. It is expected to enable commercial activities to be conducted with improved clarity and purpose, strategic robustness and transparency and will reduce the level of commercial and financial risk to the government as the custodian of the business and ultimately state forests.

URS predicts cash deficits will be better managed through a transition to separate operating entities, but still anticipates significant annual cash deficits under all models in coming years as provided for in the government's forward estimates.

The cabinet considered all of the issues facing Forestry Tasmania and I am now in a position to provide the House with the decisions that have been made and the next steps in the process. The government has determined -

- (1) That a status quo is not an option in the medium term, due to the projected annual cash deficits.
- (2) That the government will establish a process to separate these commercial and non-commercial functions of Forestry Tasmania.
- (3) This process will involve senior government officials working closely with Forestry Tasmania to determine how and when the transfer of commercial functions should occur.

Let me be very clear, this detail has not yet been determined. We will work closely with the Forestry Tasmania board to progress the initiatives identified in option 2 of the URS report.

In addition, the Parliamentary Labor Party has determined that this process will be guided by the following objectives, which are intended to support the strong, sustainable forestry sector. In the short to medium term we will minimise the need to provide financial assistance to Forestry Tasmania by making changes to the business model that are consistent with the contractual, regulatory and legislative arrangements that move the business to a sustainable financial position as quickly as possible. We will improve the transparency and legitimacy of the commercial and non-commercial activities that occur in Tasmania's public forests by separating policy, regulatory and service delivery functions so that roles are clear and unnecessary duplication of effort is avoided. We will transition over the medium term to an organisational structure for the government-owned forestry business that maximises the capacity to increase or decrease the scale and the scope of the commercial activities in anticipation or in response to evolving market circumstances. We will progress a long-term agenda that promotes private sector initiatives consistent with a more commercially sustainable industry that reduces the reliance on native forest wood supply and woodchip exports and increases the focus on engineer and value adding products for which there is more robust market demand and broader community support. We will maximise long-term

opportunities to realise carbon value from Tasmania's public forest estates outside the areas that have been designated for wood production.

The process of engagement with Forestry Tasmania has already begun. The discussions will continue with the board, noting that an independent process to replace the retiring chair and two retiring board members is close to completion. I expect to be in a position to confirm these appointments in coming weeks, based on the recommendations from the selection panel, which includes the retiring chairman, Mr Adrian Kloeden. Following the appointment of the new chair, who is anticipated to take up the role at the September 2012 board meeting, I will be asking the incoming chair and the board to continue to play a key role in the reform as we move forward.

It is extremely regrettable these reforms have begun with a debate based on misleading statements and inaccuracies. I do not wish to comment more on this matter other than to say such an approach does not help anyone deal with change. The matter is straightforward. The government is moving immediately to establish a reform governance structure to fully consider the ways in which a functional separation of commercial and a range of non-commercial functions, currently undertaken by Forestry Tasmania, can be achieved. I will be providing the parliament and Tasmanians with more detail about the way this structural separation will be achieved once the reform oversight body and the Forestry Tasmania board has worked through the available options and implementation implications.

This is the beginning of a major reform that is important to Tasmania, the forest industry and the staff of Forestry Tasmania. It is likely to result in fundamental changes in the way Forestry Tasmania and the government entities operate. It also offers the opportunity to ensure the work Forestry Tasmania does, particularly in its non-commercial activities, are more widely recognised and understood by the community. In many ways the very complex work is just beginning. As is always the case in any major reform, implementation planning is the most critical part of managing major change. For this reason I will be formally advising the Forestry Tasmania board the government wants to ensure that Forestry Tasmania is fully engaged in the next steps of the process. It is critical an appropriate governance model that recognises the expertise within Forestry Tasmania is established to facilitate the move to a resilient and robust business model as quickly as possible. The government wants to provide as much certainty as possible for Forestry Tasmania management and employees, Tasmanian taxpayers and all those interested in the ongoing management of our state forests.

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[12.29 p.m.]

Mr McKIM (Franklin - Leader of the Tasmanian Greens) - I acknowledge the statement just made by the minister. This report, prepared by an independent and expert consultant, has proved up what the Greens have been saying for decades about Forestry Tasmania. This independent advice confirms that Forestry Tasmania has been ripping money out of our schools, our hospitals, our disability services, our police and our public housing system in order to prop up a rogue agency which URS has already found cannot meet its obligations under the Government Business Enterprises Act.

This report also recommends that the commercial and non-commercial functions under option 2, which URS has recommended be adopted by government, be separated and that the non-commercial functions come back under the control of the Tasmanian people, under direct

control of appropriate government departments. The Greens have a very clear expectation that, as recommended by URS, that includes the land; the native forest and the reserves that are currently vested in FT should come back under the direct control of the Tasmanian people inside an appropriate government department. This is the recommendation of URS, the independent experts. For too long people have made forestry policy in Tasmania based on politics, and the opposition has been one of the main offenders in that regard. For too long that has resulted in our schools, hospitals, housing systems, prisons, police and disability services being short-changed to prop up a rogue agency with an unsustainable business model.

The Greens will not allow one single dollar of the contingency funds in the 2012-13 state budget to flow to Forestry Tasmania unless we are satisfied that that money is to facilitate the restructure as recommended in option 2 by URS, not to prop up a business-as-usual model or to subsidise export woodchips, and until we are assured the proper probity arrangements are in place. Option 2 recommended by URS is very clear; that is, to return the native forest estate and the reserves currently vested in Forestry Tasmania back to the Tasmanian people out of the hands of a rogue GBE, which URS has already found cannot meet its obligations under the Government Business Enterprises Act.

Frankly, the Greens would have preferred option 3 of the URS report, which is to bring all the functions currently delivered through Forestry Tasmania back into the hands of government departments. That is our policy and what we would have preferred, but we will support option 2 on the basis that it is a significant improvement on the rogue loss-making agency that is Forestry Tasmania as it currently exists. It will ultimately deliver the return of the native forest estate and the reserves currently managed by FT back into the control of the Tasmanian people, where they belong.

This is and always has been a difficult issue for the Tasmanian people and it is always going to be a difficult issue for any government of any political stripe, but we are committed to working constructively through the delivery of option 2, as recommended by URS in this report, with our colleagues in the Labor Party so that we can stop the loss of dollars to our schools, hospitals, police, public housing tenants and Tasmanians living with disability, who are all the big losers and have been for decades under a model which has seen more than \$50 million per year on average ripped out of those public services and used to prop up a rogue GBE.

The minister has been clear in his statement that we are facing massive losses in FT unless a restructure goes on. What we have just heard from Mr Gutwein is that the Liberal Party supports \$35 million each and every year being ripped out of public services in Tasmania and used to prop up an agency, Forestry Tasmania, that we already know cannot meet its obligations under the Government Business Enterprises Act. At last we have a policy from the Liberal Party. Keep ripping the money out of schools, hospitals, disability services, prisons, public housing, and public transport. Keep ripping it off the taxpayer and use it to prop up Forestry Tasmania, which we know cannot meet its obligations under the GBE act and has made an art form out of interfering in forest markets to the detriment of private businesses trying to operate in the forestry sector in Tasmania.

Forestry Tasmania have been running around undercutting businesses that are trying to make a dollar and deliver jobs in Tasmania. They are interfering in the market.