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## **RE VicForests Review 2010**

**This submission is made on behalf of MyEnvironment Inc PO Box 519 Healesville Vic 3777 in conjunction with another sent by Sarah Rees of the same organisation. We contend that VicForests has failed in the sustainable management of forests and that the status of sustainability will not be able to be regained in the medium to long term. The State Government ought look at the risk that this will pose on many levels. There are links from this submission that make up part of the submission and are included as part of the submission. We have included captures of the scope so that it can be better understood by our members and members of the public.**

The Victorian Government launched the new Timber Industry Strategy (TIS) on 18 December 2009.

Action 9.1 of TIS commits the Victorian Government to a review of VicForests. The review aims to report back to Government later this year, in time for any suggestions to be implemented from 2010.

The Department of Treasury and Finance will lead the review, in close consultation with the Department of Primary Industries and other relevant Government departments.

## Project name

VicForests Review 2010 (the Review)

## Terms of reference

### Purpose

The core policy driver for establishing VicForests was to separate Government's commercial forestry roles from its policy, monitoring and regulatory roles in forest management, in line with National Competition Policy objectives. This would ensure that Government's commercial forest operations remain open and accountable and that the logging industry is managed more efficiently and competitively (*Our Forests Our Future Policy Statement 2002*).

In line with these objectives, the primary purpose of establishing VicForests was to create a statutory body to undertake the management and sale of timber resources in Victorian State Forests on a commercial basis (*VicForests Establishing Order in Council S198 October 2003*).

The purpose of the Review is to assess whether VicForests has delivered the outcomes that Government sought at its establishment and to identify opportunities to enhance VicForests' role in the sustainable management and commercial utilisation of the State native forest timber resource.

### Scope

The Review should inquire into and report on the following matters:

#### ***Business Model and Operations***

1. Assess whether VicForests is achieving the outcomes that Government sought at its establishment including the creation of a more efficient, competitive and sustainable native forest logging industry.

We estimate that the annual subsidy to the native forest logging industry not included in VicForests annual statement is approximately \$100 million dollars comprising of;

#### ROADS

Millions of dollars are being spent by tax payers each year to maintain roads used by log trucks that are not included in VicForests annual figures.

#### WATER

Millions of dollars are being subsidised by taxpayers for the loss of water to regrowing native forests that are not accounted for in VicForest annual figures. The estimate of \$40 million per annum was calculated in 2006 and would be considerably higher now.

Doctors for Native Forests commissioned a review of Melbourne's water catchments. The report into the catchments reveals that billions of litres of water will be lost to logging and the integrity of Melbourne's water supply is being damaged due to government policy.

Melbourne is reaching the limits of supply. water shortages loom and action needs to be taken now. Yet the report reveals that water lost to logging is expected to reach 60,000 million litres per year, equivalent to that used by a quarter of a million households. Melbourne Water is losing water worth over \$40 million and is being forced to raise the price of water to reduce demand to make up for water lost to logging.

The link below opens the report as a pdf.

[http://www.doctors.forests.org.au/2006\\_Report.pdf](http://www.doctors.forests.org.au/2006_Report.pdf)

[Report into Melbourne's catchments](#)

#### FUEL

We estimate tens of millions of dollars are being spent on fuel subsidies not accounted for in VicForests Figures

#### AUDITS

Hundreds of thousands of dollars are being spent on audits not accounted for in VicForests Figures

DSE – Millions of dollars are being spent on staff and resources at the DSE that are not being accounted for in the VicForest annual figures.

SUBSIDIES – If you compare the plantation price v's the native forest average price and multiply by the total volume then we estimate that its tens of millions of dollars in windfall gain to the wood chip companies.

COMPETITION – This article from the Weekly Times 26 May 2010 It’s just pulp fiction sums up the competition:

ONE of the silliest things about logging native forest is that it’s costing us money.

Taxpayers are forking out millions to prop up the state government agencies doing it — who in turn are making losses.

Of course the logging also releases untold tonnes of carbon while Australia aims to plant monocultures to sequester it — on food-producing land.

Which is as clever as pouring your milk on your carpet while also dropping rags to soak it up.

The logging industry is a mess.

Gunns is being sued by shareholders in a class action alleging deceptive conduct and its shares have crashed to a 10-year low.

Paperlinx has shut the Wesley Vale and Burnie mills, NSW company Hardwood Resources is in liquidation and Timbercorp, Great Southern and Forest Enterprises Australia have collapsed.

And the states still logging native forest lost money on it last year.

VicForests says it lost \$5 million, though conservation groups say a \$29 million ‘royalty’ disguised an actual loss of \$34 million.

Even at \$5 million, that’s a loss of \$38,461 for each of VicForests’ 130 employees. NSW Forests lost \$13 million and Forestry Tasmania ran at a loss too.



The Tasmanian forestry industry has received almost \$1 billion in aid since 1988, including \$3.6 million last week.

Worse, critics argue VicForests, NSW Forests and Forestry Tasmania have an unfair advantage over plantation companies — they don’t buy the land they log, or pay rates on it, or pay for the trees they log.

They have virtually free access to a public asset and still lose money.

Yet Forestry SA logs only plantation and will profit this year.

The Japanese market takes 85 per cent of Australia’s chips and is moving toward ethical sources — plantation timber.

Gunns, which logs native forest, has had orders cancelled,

but plantation company Elders has contracted all its pulp for this year.

The world pulp market is hopelessly oversupplied and will be for years.

Ending native forest logging would reduce the world woodchip glut by five million cubic metres a year. That’s about the same amount Australia produced from plantation last year.

We will produce far, far more as established plantations mature as of this year.

Plantation pulp attracts a premium because it is of superior quality and most has environmental accreditation: plantation chips fetch \$207/tonne, native forest chips \$184/tonne.

And 95 per cent of house-frame timber comes from plan-



**Tall order:** state-controlled forestry industries have been given a free ride at the expense of private-sector plantations, which then have to be propped up with tax breaks.

tation. We don't need native forest for houses.

Plantation should be left to grow for longer to produce sawlogs and furniture rather than just pulp.

But there is no incentive for plantation companies to do this, or invest in sawmill technology to create better products, while taxpayer-supported native forest logging supplies cheap timber.

The Australian Bureau of Agricultural and Resource Economics' Forest Investment Paper, released this year, detailed barriers to investment in plantation. The paper said: "The public management of... native forests combined with a lack of competitive processes for the pricing and allocation of logs... (has) the

potential to effectively crowd out private-sector investment."

It said the plantation sector had to compete with "largely state government-managed native forest products".

The government agencies can sell the native product cheaply because they don't face real market forces. The plantation sector then suffers.

So the Federal Government uses a mechanism to attract investment in plantation forestry and help it compete: managed investment schemes, which provide a 100 per cent up-front tax deduction to investors.

Native forest logging is propped up by our taxes while our taxes also help plantation timber to compete.

Their products may not com-

pete directly in all the same markets currently, but there is nothing we get from native forest that we could not get from plantations if we planned for it.

Instead of propping up native forest logging, which loses money anyway, let's invest in plantations.

The plantations would no longer need support from tax breaks that distorts markets.

Labor is in power federally in all states that log significant volumes of native forests.

The current crisis is a once-in-a-lifetime chance to restructure this industry into something sustainable, ethical and viable.

Let's not miss it.

● **Leslie White is *The Weekly Times* national affairs reporter**

For evidence of lack of sustainability see section 9

2. Examine VicForests' business model particularly VicForests' capacity to balance the delivery of annual dividends to the State with the maximisation of long term economic returns to Victoria, within the context of Victorian Government policies relating to sustainable forest management.

With most of their volume going to wood chip (80%) their business model of transitioning an appearance grade resource (approx 3%) to a woodchip based industry has failed. Coupled with an Australian glut of plantation wood chips, substitutes for appearance grade timber and a global glut of pulp wood production there is no medium to long term solution for this failure. Also their decision to go for AFS certification rather than FSC has meant that major buyers in Asia are not interested in purchasing in the future as evidence in Tasmania recently. A premium is being paid for plantation timber over native forests because of its better and more consistent qualities.

Dr Judith Ajani of the Fenner School of Environment and Society at The Australian National University gives this public lecture called 'Australia's forestry crisis: How it happened and what to do' at ANU on 6 May 2010. - Many plantation managed investment companies have collapsed. A pulp mill proposal struggles to find financiers. A stock exchange listed forestry company requests a share trading halt while it tries to sell forestry assets to repay debt. A major Australian company (with forestry a non-core activity) struggles to divest itself of forestry assets. The global financial crisis is a glib explanation for Australias forestry crisis. Todays difficulties stem from the early 1990s when it became clear that Australias plantations, and paper recycling, could do the job of meeting virtually all our sawn timber and paper needs without calling on native forests. Any plantation expansion therefore meant planting for the global market. Please view the following video

[http://www.youtube.com/watch?v=1Qa7awZ0tHY&feature=player\\_embedded](http://www.youtube.com/watch?v=1Qa7awZ0tHY&feature=player_embedded)

3. Assess whether VicForests is operating efficiently, effectively, transparently and profitably in line with VicForests' commercial remit. This assessment should include benchmarking of VicForests' operations against better practice and provide recommendations aimed at enhancing the performance of the organisation together with appropriate performance measures to monitor ongoing performance.

### ***Economically Unsustainable***

The following captures have been taken from [VicForests Annual report 2009](#) Economically VicForests made a 5 million dollar loss in 2009 - and closer to 10 million if you take out "other revenue" not from the sale of forest products such as 5.7 and 1.3 million dollars given in 2008, 2009 for bushfire recovery. Approximately 60% of the total revenues are coming from woodchips which is a low value commodity market that is not going to improve profits in the future

## STATEMENTS 2008-09

### INCOME STATEMENT FOR THE REPORTING PERIOD ENDED 30 JUNE 2009

	Note(s)	2009 \$'000	2008 \$'000
<b>REVENUE</b>			
<b>Sale of Goods</b>			
Revenue from sale of forest products	1(b), 3(a)	125,335	125,767
<b>Other revenue</b>			
Other revenue	1(b), 3(a)	4,860	6,438
Interest	1(b), 3(a)	239	607
<b>Total revenue</b>		<b>130,434</b>	<b>132,812</b>
<b>EXPENSES</b>			
Production expenses	1(c), 3(b)(i)	96,178	96,780
Employee expenses	3(b)(ii)	13,721	13,718
Roading and regeneration expenses	3(b)(iii)	12,351	10,505
Other expenses	3(b)(iv)	8,542	10,028
Depreciation	1(e), 11(b)	873	658
Amortisation	1(e), 1(g), 3(b)(v)	3,762	286
Borrowing expenses - loans	1(h)	113	63
Borrowing expenses - finance leases	1(h)	15	4
<b>Total operating expenses</b>		<b>135,555</b>	<b>132,042</b>
<b>Net result from operating activities before net market value adjustments, asset revaluations and impairments of assets</b>		<b>(5,121)</b>	<b>770</b>
Decrement in net market value of biological timber assets	1(g), 8(c)	(274)	0
Write-down of timber assets in log storage facility	7	(1,960)	0
<b>Net result before income tax</b>		<b>(7,355)</b>	<b>770</b>
Income tax credit/ (expense)	1(i), 4	2,331	(232)
<b>Net result for the period</b>		<b>(5,024)</b>	<b>538</b>

The above Income Statement should be read in conjunction with the accompanying notes.

4. Evaluate VicForests' performance in delivering the following core business functions:
  - I. Plan, estimate and manage the available forest resource in line with current and future demand for timber products, in order to best position and market timber to customers;
  - II. Sale of timber for sawlog, pulplog and other end uses, including an appraisal of auction based pricing of timber and other forms of sale; and
  - III. Harvest and supply of timber, including an assessment of the harvest and haul tender process.
    - (i) Over harvesting has taken place in relation to the sustainable yield and this has not been addressed.
5. Examine and assess VicForests' business model in the context of VicForests' capacity to undertake commercial functions, beyond the commercial sale and supply of timber, including; the provision of biomass for energy production, road maintenance, forest regeneration and salvage harvesting operations.

### **[The rate of forest regeneration](#)**

If native forest is being clear felled and not regenerated then it is not a sustainable industry nor is it sustainable for biodiversity. The results from the Department of Sustainability and Environments Monitoring Annual Harvesting Performance 2007/2008 states that 89% of regeneration is outstanding representing approx 14,000 ha and proves that native logging in Victoria based on regeneration performance alone is unsustainable. [Read more](#)

<http://www.myenvironment.net.au/index.php/me/Our-work/Forests/Forest-Issues/Indicators-of-Sustainability-for-Victorias-Native-Forest/The-rate-of-forest-regeneration>

6. Examine VicForests' risk management framework noting particularly its capacity to manage and respond to commercial risks.

### ***Assessment of stakeholder relationships***

7. Examine and assess the interaction between VicForests: and Government; industry; and other stakeholders.

We have formally complained to VicForests in Healesville pre the January 2009 SAI Global Audit of their AFS certification. We raised community concerns in relation to their derogatory and unuseful put downs of the environment movement. To date we have had no formal feedback nor do we notice that this was included as an issue raised in the aforementioned audit.

8. Identify opportunities for enhancing VicForests' stakeholder engagement with industry, Government Departments and other stakeholders, in line with VicForests' commercial remit.

They have failed their FSC audit in 4 out of the 7 major criteria. If they can not prove sustainability then this will result in the claims of sustainability being made by their major customers to be in conflict with the ACCC claims about sustainability. This in turn will put VicForests and the Government in breach of the Wood Pulp Agreement in so far as it is not supplying suitably sustainable raw materials.

### **Environmental performance**

9. Assess VicForests' environmental performance relating to forest management and compliance with regulation (relating to resource use and the environment) and examine opportunities for improvement.

The over whelming body of evidence provided by the DSE and VicForests reports proves that native forest logging is far from sustainable and in fact that most of the data to prove that it is missing. Based on the precautionary principle for sustainability this makes the current claims of sustainability a farce and threatens to jeopardise Australia's reputation on an International basis.

### **[Victoria's State of the Forest Report 2008](#)**



The state of the forest report is supposed to underpin the sustainability of Victoria's native forest logging however, it is clear that 3/4 of the indicators have missing data!

<http://www.myenvironment.net.au/index.php/me/Our-work/Biodiversity/Biodiversity-Issues/Victorias-State-of-the-Forest-Report-2008>

[Read More](#)

## **[CAR Reserve - Comprehensive, Adequate and Representative reserve system for forests in Australia Requires Immediate Review](#)**

The CAR reserve system is an area of landscape representing no less than 15% of all the ecological vegetation classes in forested estates. Outside of the CAR Reserve, the landscape is open to logging. The Regional Forest Agreements are agreements across the forests that permit logging on the proviso that a CAR Reserve is in place, however, since successive Victorian bushfires, the CAR Reserve is no longer representative nor adequate and requires immediate review. **At least 30% of the reserve system in the Central Highlands is damaged and/or transformed.**

<http://www.myenvironment.net.au/index.php/me/Our-work/Forests/Forest-Issues/CAR-Reserve-Comprehensive-Adequate-and-Representative-reserve-system-for-forests-in-Australia-Requires-Immediate-Review>

[Read more](#)

## **[Legislative requirements for sustainability of Native forest logging](#)**

Legislative requirements for Native forest logging to be sustainable [Read more](#)

### ***Product certification***

10. Examine VicForests' mechanisms or structures to assure compliance with the economic, social, environmental and cultural requirements of the Australian Forestry Standard and make any necessary recommendations for improvement in these mechanisms or structures to maintain accreditation including potential changes to criteria.

TBA