

FOREST INDUSTRIES ASSOCIATION OF TASMANIA

SUBMISSION

TO

**RESOURCE PLANNING AND DEVELOPMENT
COMMISSION**

**INQUIRY ON THE PROGRESS WITH
IMPLEMENTATION OF THE TASMANIAN REGIONAL
FOREST AGREEMENT**

JUNE 27, 2002

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SECTION I – OVERVIEW OF FIAT AND ITS MEMBERSHIP

The Forest Industries Association of Tasmania (“FIAT”) is an industry association formed in 1983 to represent the interests of processors of Tasmanian forest products.

Our members activities are diverse and include:

- * Production of veneers;
- * Production of hardwood and softwood timber
- * Production of special timbers;
- * Pulp and paper production;
- * Woodchip production;
- * Plantation forestry

Our objectives as enunciated in our Memorandum of Association include the following key relevant issues;

- * “...promoting and advancing the interests of the forest industries of the State of Tasmania....”
- * “To promote and advance the public image of the forestry and forest products industries of the State of Tasmania”
- * “To promote and develop production forestry and to protect, maintain and develop the forest resource of the State of Tasmania.”

FIAT’s membership includes all of the State’s larger processors of forest products. A significant proportion of the crown sawlog output and all of the veneer product is processed by the members of FIAT. In excess of 300,000m³ per annum of high quality saw and veneer log is processed by members of FIAT.

FIAT members account for in excess of 75% of the gross value of production in the forest and wood products industry in Tasmania.

Our members represent the largest employment base in the forest and forest products industry in Tasmania and are responsible for the employment of approximately 5000 employees.

FIAT members are a significant and important component of Tasmania’s industry and the association can justly claim to be the pre-eminent representative organization in the industry.

SECTION II – SCOPE OF THE REVIEW PROCESS

We understand reference to the Resource Planning and Development Commission (“RPDC”) has been made by the Tasmanian Minister for Primary Industries, Water & the Environment, David Llewellyn, pursuant to Section 14 the of Public Land

(Administration and Forests) Act 1991 for the conduct of an inquiry and to report on the progress of the Tasmanian Regional Forest Agreement (1997) (“the RFA”).

The specific scope is for the inquiry to be undertaken pursuant to the Scoping Agreement for the Five Year Review of Progress with Implementation of the RFA (2001) (“Scoping Agreement”) as agreed between the Commonwealth and Tasmanian Governments, and the RFA to assess progress against the agreed milestones and specified commitments in accordance with clauses 45, 46 and 47 of the RFA.

FIAT is of the view that the Terms of Reference have been deliberately set in such a manner as to ensure that the current Inquiry is not a wide ranging review of the RFA but is constrained to those issues specifically encompassed by Clauses 45, 46 and 47 of the RFA.

Those clauses in particular provide as follows:

“Five yearly review”

45. A review of the performance of this Agreement is to be undertaken during the last year of each 5 year period to assess the progress of the Agreement against its specified milestones and commitments.

The review is to be conducted:

- (i) By a person or body jointly appointed by the parties; and
- (ii) In accordance with agreed priorities, procedures and funding arrangements which are to be agreed no later than six months before the end of each five year period of this agreement.

The review will also:

- (iii) invite and take account of public comments; and
- (iv) use and take account of the Sustainability Indicators including trends; and
- (v) be sufficient to satisfy the requirements for a State of the forests Report as required by Section 59D of the *Forestry Act* 1920 (Tas); and
- (vi) be completed within three months of its commencement; and
- (vii) develop a report detailing the review process and its findings.

46. The report prepared for the review process described above will be published and made publicly available within three months of it having been received by both parties.
47. The purpose of the review process under this Agreement is not to renegotiate the Agreement.”

It is of particular importance in our view that clause 47 specifically precludes any attempt to broaden the review processes to issues outside of those provided for at clauses 45 and 46.

Recent statements made by the Wilderness Society have enjoined their members to make submissions to the Inquiry without any regard to the strictures of the Terms of Reference. In our view this constitutes a deliberate mischief and an attempt to subvert the orderly processes of the Commission.

It is our intention to limit our submission to issues specifically encompassed by the scope of the Terms of Reference and we respectfully submit that it is incumbent upon the Commission to completely ignore any submission that goes beyond those clearly defined parameters.

Any failure to observe the Terms of Reference with strict rigor will act in such a manner as to mitigate against one of the primary foundations for the RFA i.e. providing security of resource for the forest industry (RFA Recitals A).

We perceive that there are some parties who wish to use this public hearing process to grandstand and seek unwarranted public attention, presenting sensationalized and unbalanced material. No such opportunity should be permitted to occur.

Section III – History and purpose of the RFA

The RFA implements the National Forest Policy Statement 1992 (NFPS) endorsed by the Commonwealth and all State and Territory Governments and accepts the principles of the Tasmanian Forests and Forests Industry Strategy (Sept. 1990) (TFFIS) other than the extent to which they are inconsistent with the National Forest Policy Statement.

At clause 19 the RFA provides as follows: -

- “19. The parties confirm their commitment to fulfilling the goals, objectives and implementation of the NFPS by:
 - Developing and implementing ecologically sustainable forest management and use; and
 - Establishing a CAR Reserve System; and

- Facilitating the development of an internationally competitive wood production and wood products industry; and
- Promoting the conservation and management of the Private Forest Estate.”

It is clear from this clause that the RFA is an integrated agreement that deals with a range of competing social, economic and environmental considerations.

In reviewing the progress of the agreement it must be a prime consideration the extent to which any one of these considerations may have been permitted to take primacy over others to produce an outcome that may ultimately be unbalanced. Of particular relevance may be whether or not too much of the higher quality mature forests have been removed from multiple use forestry at the expense of the promotion of a thriving wood production and wood products industry.

We say that this issue will need to be kept under consideration in future reviews to ensure that consequences not intended by the Agreement parties do not occur.

SECTION IV - IMPLEMENTATION PROGRESS

The report on the Implementation of the Tasmanian Regional Forest Agreement 1997-2002 Version Final 8/3/02 prepared by the Tasmanian and Commonwealth Governments deals comprehensively with an analysis of RFA commitments and milestones and progress thus far in their achievements.

In a global sense it is clear that the implementation process has proceeded on a schedule substantially in line with the intention of the parties to the agreement.

We do not intend to traverse the broad range of issues canvassed in the background documents published by the RPDC but will instead concentrate on a number of specific issues of primary concern to FIAT.

It is quite clear that virtually all time framed commitments and timetabled agreements have been met and that whilst some small delays may have occurred in respect to some issues they are small in the overall scheme of the agreement as a whole. It is inevitable in a complex agreement such as the one under review that small discrepancies in implementation dates can and will occur.

Commonwealth Legislation

FIAT is specifically concerned that the passage of legislation by the Commonwealth as enunciated at Clause 22 was significantly delayed which has had a number of consequences in other criteria to be measured.

We readily concede that this does not constitute any specific failure to meet a milestone in the RFA. It does however, provide a contextual backdrop to commentary we wish to

provide on other aspects of the implementation process and the Sustainability Indicators for Tasmanian Forests 1996-2001 (“Sustainability Report”)

The Commonwealth’s Regional Forest Agreement Act 2002 received Royal Assent on 5th of April, 2002. The passage of that Act postdated the formulation of the Implementation Report and does not therefore fall within the confines of that report. It is never-the-less an unequivocal milestone finally completed by the Commonwealth.

That this Act was not passed until 2002 meant the continuation of a lack of confidence regarding resource security for the industry. This delay has restricted much of the expected employment and industry development more particularly discussed at Clauses 74-77 of the RFA.

This issue is discussed later in this submission at the sections dealing with employment and economic data.

The CAR Reserve System

The establishment of the CAR reserve system as detailed at Clause 48 of the RFA has proceeded as envisaged under the RFA. The necessary areas to preserve target communities have been reserved without delay or difficulty.

A consequence of the establishment of the CAR reserves system has been a progressive deterioration in the quality of the saw logs provided to the industry from public land by virtue of the best quality resource being contained within CAR reserves, World Heritage Areas or other reserves.

The effect of this deterioration has resulted in some contractions of confidence within the sawlog and veneer processing industries, which has in turn acted to constrict investment and expansion plans. Again this has impacted on the reported employment and investment data reported in the RPDC Background Report.

SECTION V – SUSTAINABILITY INDICATORS

The requirements of Clause 91 have been met, however we are concerned that appropriate measures of social and economic factors have not been created with the same concentration and breadth as has been the case for environmental indicators.

It is evident from the employment and development data that the available information is not sufficiently comprehensive to provide an in-depth analysis of the actual position in the industry.

FIAT believe that more consideration will be required in this area through comprehensive statistical data that more accurately encapsulates the true worth of the industry and which will permit a meaningful on-going base from which change can be measured.

We submit that ABARE should be tasked with an on-going role to ensure the establishment and maintenance of a comprehensive range of data to measure the employment and industry development material for the industry.

Employment and Industry Development

The development of the wood production and wood products industry has not progressed at the pace anticipated when the RFA was originally entered into.

There appear to be a number of contributing reasons why these original expectations have not been fully realized to date.

- **Industry restructure** – during the period under review there has occurred a significant change in ownership within the industry which has distorted the data that has been collated and it is no longer directly comparable to the dataset prior to these changes.

Of particular significance has been the acquisition of Boral Timber Tasmania and North Forest Products for \$72.5 million and \$335 million respectively by Gunns Limited.

Given that the two acquired Companies were large players in the Tasmanian timber industry it is inevitable that their acquisition by Gunns would produce some economies of scale and synergies that would distort the measured data.

- **Delayed RFA Legislation** – The significant delay in the passage and settlement of the content of the Commonwealth RFA legislation has contributed significantly to the reduced outcome in the area of industry development.

The industry expectation was that Commonwealth RFA legislation, which secured the operation of the RFA and guaranteed industry participants compensation in circumstances where they committed to capital expansion only to have an adverse intervention by the Commonwealth, would be progressed at an early time. That this was not achieved until 2002, almost 5 years after the commencement of the RFA, has acted to reduce the confidence of the industry to make risk associated investment decisions and has mitigated against the more highly successful outcome expected by the industry when the process began.

This industry has been beset in the past by decisions taken to its detriment where compensation has been difficult to achieve, so the fact that compensation was not guaranteed until 2002 has had an adverse effect.

- **Tasmania Together Benchmarks** – during the period the subject of this review the Tasmanian government has undertaken a process of community consultations with a view to creating a series of benchmarks to progress the Tasmania Together vision.

One benchmark that has been endeavored to be progressed and arguably the most contentious that has been considered has been for the phase out of logging of old growth forests in Tasmania. This issue has had and continues to provide considerable heated debate, which has the effect of continuing to destabilize the confidence of the industry such that investment decisions have been delayed or shelved until the issue of secure access to a quality resource is resolved.

- **Taxation of Plantation Development** – The “12 month tax rule” acted to considerably disadvantage the plantations prospectus companies such that considerable investment that may have come forward has been delayed.

The passage of the remedial legislation by the Commonwealth earlier this year has produced a considerably increased flow of investment interest, which we expect will remedy the slow uptake previously experienced.

- **Impact of CAR Reserves** – As identified earlier in this submission the value adding processes have been hampered by a progressive deterioration in the quality of the logs being provided to millers from public land. This deterioration has been substantially driven by the ‘locking away” of the highest quality resources in CAR and other reserves which has progressively meant a reduced quality of sawlog.

Sustainable yield has continued at the guaranteed minimum of 300,000m³ per annum but the decline in quality of log including a greater proportion of regrowth timber has led to reduced yields for our members.

Even taking due consideration of these countervailing factors there exists considerable evidence that the RFA has been successful in encouraging investment in value adding in the industry. Much of this evidence is reported in the Implementation Report.

Of primary interest to FIAT and its members has been the increase in the shift towards value adding in the sawmilling sector of the industry.

General shift toward value-adding in sawmilling sector:

Even without the security of the federal legislation, the RFA document has given the industry some security for investment in replacement of obsolete equipment and the purchase of equipment for further down stream processing.

FIAT sawmiller members have significantly invested in drymill equipment, increasing the production of value adding products such as flooring (end-match, tongue & groove and parquetry), architrave and skirtings, mouldings and dowels, joinery (including cupboard doors), wall paneling and furniture bolts. By way of example, the proportion of flooring as a percentage of dry sawn production increased from 18% in 1994 to 32% by 1999.

Underwriting this shift has been the development of new markets and the associated sales networks. In 1994, 56% of dry sawn production was sold to mainland markets with less than 1% exported out of the country. By 1999 sales out of Tasmania had increased to 73% including 8% overseas.

The log volume over the period has remained relatively constant at about 300,000m³ per annum.

Employment Data

The comments made in respect to industry development in the earlier section of this submission equally apply to the consideration of employment issues. Employment growth may be considered to have occurred at a rate much less than that anticipated at the time the RFA was entered into and many of the mitigating factors are those set out in the earlier section of this submission.

It is difficult to meaningfully evaluate the data provided in the Background Report as it appears to be quite deficient and does not properly encapsulate the breadth of coverage of employment in the forest and forest products industry in Tasmania.

The presented ABS data does not fully evaluate the breadth of employment categories, for example the results omit log truck drivers and all of their support operations (estimated to number 1000) and does not appear to properly record the value adding sector of the industry in the manufacture of furniture and cabinets (estimated to number 600). Including these estimates would increase the employment numbers in the ABS estimate of 3639 (Table 6.5.a.1) to more than 5,000. We note that within the FIAT member companies alone, employment stands at 5,000.

The data provided by the two ABARE studies is certainly more robust and perhaps much closer to an accurate assessment than the equivalent ABS data but again suffers from the failing of the ABS data by omitting forest product transport operators (estimated 1000) and it is unclear whether or not any consideration has been allowed for furniture manufacture and cabinet making (estimated 600). With the addition of these estimates the direct employment more accurately may be approximately 10,000.

The multiplier determined by Yainshet and Grist (2001) of 1.44 would suggest a total employment contribution of 14,400. In the context of the Tasmanian labour market this would make the industry a very significant player.

It is clear that data on investment and employment is lacking the precision that is afforded the data on environmental considerations and it is our position that it is imperative that much improved data collection is required to substantiate or otherwise socio-economic benefits of the Tasmanian timber industry.

We request that ABARE be tasked with providing a detailed analysis of employment and investment data that will facilitate more meaningful comparisons than are currently possible.

It is also clear that other labour force data demonstrates that the industry has performed as well or better than comparable positions in other industries in Tasmania with wage adjustments occurring at a similar rate and injury frequency rate declining at a rate in advance of most comparable industries.

SECTION VI – OVERVIEW

FIAT believe that the Background reports unequivocally demonstrate that the RFA process in Tasmania has been a complete success and has achieved much of the goals that were established for the process. Not all goals have been achieved and there exist a number of limiting factors that have prevented the process optimizing its potential. Many of these impediments will not be replicated in coming years and others can be removed by a further commitment by the parties to the RFA

In this context it is incumbent on the Tasmanian Government to remove the threat posed by the Tasmania Together benchmarks on old growth logging to enable the industry to proceed unencumbered by threats of loss of access to further resource.

Equally it is incumbent on the parties to the agreement to provide a mechanism for the collection and analysis of comprehensive and reliable data to measure the Social and Economic outcomes of the Agreement at the same level of exactitude devoted to the Environmental indicators.