

Chapter 2

Background

2.1 This chapter provides an overview of the Tasmanian Community Forest Agreement (May 2005), the Tasmanian Forests Statement of Principles (October 2010), the Tasmanian Intergovernmental Agreement (August 2011), and the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (announced August 2011).

2.2 The chapter also discusses the finding of the Australian National Audit Office's Performance Audit Report No.26 2007-08 (titled *Tasmanian Forest Industry Development and Assistance Programs*) and Performance Audit Report No.22 2012-13 (titled *Administration of the Tasmanian Forests Intergovernmental Agreement: Contractors Voluntary Exit Grants Program*). A brief overview is also included of other grants programs administered by the Australian Government relating to the Tasmanian forestry industry.

2.3 Tasmania's forestry industry has been the focus of several Australian Government funded grant programs that have been delivered either by Department of Agriculture, Fisheries and Forestry (DAFF) or jointly with the Tasmanian Government.¹

2.4 Tasmania became a signatory to the National Forestry Policy Statement (NFPS) in 1995, which set out broad national goals to be pursued at regional levels.² Tasmania signed a Regional Forestry Agreements (RFA) on 8 November 1997, which was a key element in the NFPS. Tasmania's RFA increased the existing forest conservation reserve system to 2.7 million hectares and established a program to expand the values of conservation onto private land.³

2.5 Tasmania's RFA has also led to the creation of intensive forest management, infrastructure development and jobs in plantations. The Australian Government in 1997 also provided \$110 million in funding to develop forestry exports and value adding. The Australian and Tasmanian governments have since varied the original RFA on two occasions, in 2001 and 2007.⁴

Tasmanian Community Forest Agreement Industry Development Programs

2.6 In 2005, the then Australian and Tasmanian governments jointly announced the Tasmanian Community Forest Agreement Industry Development Programs

1 Australian National Audit Office (ANAO), *Submission 7*, p. 3.

2 Department of Agriculture, Fisheries and Forestry (DAFF), *National Forest Policy Statement*, www.daff.gov.au/forestry/policies/statement (accessed 9 April 2013).

3 DAFF, *Regional Forest Agreement Tasmania website*, www.daff.gov.au/forestry/policies/rfa/regions/tasmania/rfa (accessed 9 April 2013).

4 DAFF, *Regional Forest Agreement Tasmania website*.

(TCFA).⁵ A total of \$250 million was committed by the Australian and Tasmanian governments to preserve old-growth forests and assist the industry to modernise and adjust to the changing market demands.⁶

2.7 The TCFA, which contained one industry-specific program relevant to the inquiry, ran from 2006 to 2009.⁷ The Tasmanian Forest Industry Development Program (TFIDP) provided \$42 million to 62 projects.⁸ The program's objective was to assist the Tasmanian native timber industry to upgrade harvesting equipment, increase export competitiveness and develop more efficient methods of production.⁹

2.8 The guidelines for the TFIDP were developed and approved by the then Australian Government Minister for Fisheries, Forestry and Conservation and the Tasmanian Government Minister for Infrastructure, Energy and Resources.¹⁰

2.9 DAFF jointly managed the TFIDP with the then Tasmanian Department of Economic Development. An advisory panel oversaw the implementation of the program, which included individuals with expertise in the Australian forestry industry along with Australian and Tasmanian government officials. The TFIDP program guidelines are located at Appendix 3.

Industry downturn

2.10 Since 2008, the Tasmanian forestry industry has experienced a downturn, which has seen employment in the sector fall by 50 per cent.¹¹ The downturn has been driven by a range of factors, including:

- the global economic crisis;
- reduced demand for hardwood structural timber,
- the collapse of the Managed Investment Scheme;

5 ANAO, *Submission 7*, p. 2.

6 DAFF, *The Tasmanian Community Forest Agreement website*, www.daff.gov.au/forestry/national/info/cfa (accessed 9 April 2013).

7 The TCFA also contained two other programs: the Tasmanian Country Sawmills Assistance Program; and the Tasmanian Softwood Industry Development Program. Refer to DAFF, *Submission 9*, p. 16.

8 In October 2007, the then Australian Government Minister for Fisheries, Forestry and Conservation wrote to the successful applicants of the three programs under the TCFA advising that all grant recipients would receive an additional 30 per cent to assist applicants to offset the income tax liability of the original grant. The additional payments totalled \$16.8 million across the three programs and were approved by the former Prime Minister and the then Minister for Finance and Administration. Refer to DAFF, *Submission 9*, p. 16 and ANAO, *Tasmanian Forest Industry Development and Assistance Programs*, Audit Report No.26 2007-08, p. 14.

9 Department of Agriculture, Fisheries and Forestry, *The Tasmanian Community Forest Agreement website*, www.daff.gov.au/forestry/national/info/industry

10 ANAO, *Tasmanian Forest Industry Development and Assistance Programs*, Audit Report No.26 2007-08, p. 13.

11 ANAO, *Submission 7*, p. 2.

- a reduction of prices in the Chinese woodchip market;
- a significant contraction in the Japanese woodchip markets along with a preference for plantation resources;
- the high Australian dollar, which has weakened export competitiveness; and
- increased competition from hardwood plantations in Thailand, Vietnam and South America.¹²

ANAO Performance Audit Report No.26 2007-08

2.11 On 11 March 2008, the ANAO Performance Audit Report No.26 2007-08 was tabled in the Senate.¹³ The Report related to DAFF's administration of the three programs under the TCFA and identified a number of shortcomings, which are summarised in ANAO's submission to the inquiry.¹⁴ The ANAO made three recommendations to DAFF in the report which were aimed at improving the administrative effectiveness of the programs, and were 'also to encourage DAFF to reinforce to those administering programs the importance of adhering to existing departmental requirements'.¹⁵ The department agreed to implement the recommendations.

2.12 The ANAO informed the committee that since the 2007-08 report was tabled:

...the Government has taken steps to improve the transparency and accountability of grants administration at a whole-of-government level. The Government's expectations for all Australian Government agencies that are subject to the *Financial Management and Accountability Act 1997* (the FMA Act), and their officials when performing duties in relation to grants administration, have been established through Finance Minister's Instructions (December 2007 and 2009) and the subsequent release of the *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration* (CGGs) in 2009.¹⁶

2.13 The ANAO also submitted that:

Agency staff involved in grants administration must ensure that they behave in accordance with the law, government policy, agency rules and with applicable funding agreements. Policy requirements relating to grants administration include the CGGs, applicable policy and legislation of the Commonwealth, the guidelines applying to the granting activity and

12 Tasmanian Department of Infrastructure, Energy and Resources, *About Tasmanian Forests Intergovernmental Agreement*, www.forestsagreement.tas.gov.au/about (accessed 9 May 2013).

13 *Journals of the Senate*, 11 March 2008, p.179.

14 ANAO, *Submission 7*, pp 4–5.

15 ANAO, *Submission 7*, p. 5.

16 ANAO, *Submission 7*, p. 4.

grants-specific process requirements decided from time-to-time by the Australian Government.¹⁷

2.14 DAFF submitted that it had improved its management of its grants programs following the 2007-08 ANAO report on the TCFA programs. The department provided the committee with much detail of initiatives it has taken and procedures it has implemented in response to the report and also to a 2011 Ernst and Young evaluation report of the programs. DAFF also provided the committee with its review of the Ernst and Young report that had been requested by the Legislation Committee at the February 2012 Estimates hearings.¹⁸

2.15 The ANAO observed that in response to its performance audits, its better practice guidance and the 2009 release of the CGGs, DAFF had developed a Grants Management Manual to support departmental program managers.¹⁹

Tasmanian Forests Statement of Principles to Lead to an Agreement

2.16 In 2010, representatives of the Tasmania's forestry industry, unions, community and environmental organisations came together to respond to the industry downturn and negotiate an agreed approach. The negotiations established the *Tasmanian Forests Statement of Principles to Lead to an Agreement* (Statement of Principles) in October 2010, which called on the Australian and Tasmanian governments to provide assistance to the Tasmanian forestry industry and support the restructure for a sustainable industry.²⁰ A copy of the Statement of Principles is located in Appendix 4.

2.17 The Statement of Principles presented an agreed approach between the forestry industry and environmental groups to:

- resolve conflict over Tasmania's forests;
- protect native forests; and
- develop a strong, sustainable timber industry.²¹

2.18 The Statement of Principles requested support from the Australian and State governments to assist with the delivery of all principles. The Australian and Tasmanian governments, in response to the Statement of Principles, jointly appointed an independent facilitator, Mr Bill Kelty AC, to work with the signatories to develop an implementation plan that would allow for an agreement to be formed.²²

17 ANAO, *Submission 7*, p. 4.

18 DAFF, *Supplementary Submission 9*.

19 ANAO, *Submission 7*, p. 6.

20 Tasmanian Department of Premier and Cabinet, *Tasmanian Forests Statement of Principles to Lead to an Agreement*, p. 1.

21 Tasmanian Department of Infrastructure, Energy and Resources, *Statement of Principles*, www.premier.tas.gov.au/data/assets/pdf_file/0009/134991/draft_principles.pdf (accessed 9 May 2013).

22 Tasmanian Department of Infrastructure, Energy and Resources, *Statement of Principles*.

2.19 Mr Kelty provided his report, *Tasmanian Forests Interim Report for Consideration*, to the Australian and Tasmanian governments on 31 March 2011. This report was received by the Australian Senate on 5 April 2011.²³

2.20 Mr Kelty's report states that the parties of the Statement of Principles had a high degree of uncertainty on the following issues:

- the continuation of native forest harvesting under the Statement of Principles;
- the expected long-term industry structure, including whether a pulp mill is required;
- the boundaries for areas considered high conservation value forests;
- the assistance required to restructure the industry; and
- the options for reskilling and economic diversification.²⁴

2.21 Mr Kelty also acknowledged that, if an agreement could not be achieved, the consequences of failure could be significant for the forestry industry, the environment, the local community and Tasmania.²⁵

Tasmanian Forests Intergovernmental Agreement

2.22 In response to Mr Kelty's report and the Statement of Principles, the *Tasmanian Forests Intergovernmental Agreement* (IGA) was signed by both the Australian Prime Minister and the Premier of Tasmania on 7 August 2011.²⁶ The IGA outlines the commitments and expected outcomes, as the Australian and Tasmanian governments work together to assist the Tasmanian forestry industry transition to a sustainable and profitable industry.²⁷

2.23 The IGA committed \$277 million²⁸ in funding over 15 years in the three streams:

- (i) support workers, contractors and communities;
- (ii) protect high conservation forests and ensure sustainable wood supply; and
- (iii) fund projects that support regional economic diversification.²⁹

23 *Journals of the Senate*, No. 28, 10 May 2011, p. 858.

24 Mr Bill Kelty, *Tasmanian Forests Interim Report for Consideration*, pp 8–9.

25 Mr Bill Kelty, *Tasmanian Forests Interim Report for Consideration*, p. 12.

26 *Tasmanian Forests Intergovernmental Agreement*, p. 1.

27 *Tasmanian Forests Intergovernmental Agreement*, p. 1.

28 The total funding contributions include \$261.5 million from the Australian Government and \$15.5 million from the Tasmanian Government.

29 *Tasmanian Forests Intergovernmental Agreement*, pp 3, 5 and 9.

2.24 There were several Australian government departments responsible for the implementation of the IGA, which included DAFF; the Department of Sustainability, Environment, Water, Population and Communities; the then Department of Innovation, Industry, Science and Research; and the then Department of Regional Australia, Regional Development and Local Government.³⁰

2.25 Of particular relevance to this inquiry is one IGA measure for the Australian Government to provide up to \$45 million to support the voluntary exit for native forest haulage, harvest and silvicultural contractors.³¹ In this regard the Australian Government Minister for Agriculture, Fisheries and Forestry and the Tasmanian Deputy Premier announced on 21 October 2011 the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program.³²

Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

2.26 The Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP) sought to assist the Tasmanian public native forest sector adjust to the industry downturn and support its restructuring to a smaller operating environment. The IGACEP program guidelines acknowledged that the viability of many harvest, haulage and silviculture contracting businesses had been directly affected by the changes occurring within the Tasmanian forestry industry.³³

2.27 The IGACEP guidelines were approved and first published on DAFF's website on 26 October 2011. Revised program guidelines were published on DAFF's website on 28 October 2011. The IGACEP program guidelines are located at Appendix 5.

2.28 According to the program guidelines, the objective of the IGACEP was to reduce the amount of wood being harvested and hauled within Tasmania's public native forests by '1.5 million tonnes to support the restructure occurring within Tasmania's forestry industry towards a smaller operating environment'.³⁴

2.29 The IGACEP guidelines established a competitive, merit based grant program. Applications would be assessed by an advisory panel and offers would be made in accordance with the program's objective and each application's individual merit score. The IGACEP guidelines also state that:

...the program wasn't designed to compensate for lost or cancelled contracts, as grant recipients were required to exit the industry and comply

30 DAFF, *Submission 9*, p. 7; see also IGA, Clause 16.

31 DAFF, *Submission 9*, p. 7.

32 DAFF, *Submission 9*, p. 8.

33 DAFF, *Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program Guidelines*, October 2011, p. 1.

34 DAFF, *IGACEP Grant Program Guidelines October 2011*, p. 2.

with strict conditions including, exiting the national forest industry for ten years except to the extent of completing existing contractual obligations.³⁵

2.30 Clause 16 of the IGA states that the Australian Government would consult with Tasmania, and where appropriate, the forest contractors' associations during the design and delivery of this exit mechanism.³⁶ DAFF stated it had consulted with the Tasmanian Forest Contractors Association, the Forest Industries Association of Tasmania and the offices of the responsible Australian and Tasmanian government ministers, regarding the design of the IGACEP guidelines. An agreement was unable to be reached by DAFF with its Tasmanian counterparts on some aspects of the program guidelines. To resolve the issues regarding the program's final design, negotiations occurred at the ministerial level.³⁷

2.31 Under the IGACEP, 61 applicants were offered grant funding totalling \$44 million. Individual grants were capped at \$3 million GST exclusive and individual grant payments ranged from \$20 000 to \$3 million.³⁸

2.32 Further detail on the IGACEP is provided in Chapter 3.

ANAO Performance Audit Report No.22 2012-13

2.33 The ANAO Performance Audit Report No.22 2012-13, *Administration of the Tasmanian Forests Intergovernmental Agreement: Contractors Voluntary Exit Grants Program* was tabled in the Senate on 25 February 2013.³⁹

2.34 In the report, the ANAO stated that potential applicants for grants under the program were informed of the opportunity to apply and were provided with timely access to program guidelines and additional guidance material. The ANAO stated that DAFF had also established detailed administrative arrangements to process applications and to make grants payments.⁴⁰

2.35 However, the ANAO found that there were a number of weaknesses in the administration of the program. Specifically, the ANAO report identified cases in the assessment of applications where the guidelines were not followed, in documentation and in compliance arrangements.⁴¹ These matters are discussed in chapter three of the committee's report.

2.36 The ANAO concluded that DAFF did not follow some key requirements of its own Grants Management Manual and some requirements of the CGGs (see paragraphs 2.12 to 2.14 above). The ANAO's concerns related to DAFF's shortcomings in the:

35 DAFF, *IGACEP Grant Program Guidelines October 2011*, p. 2.

36 *Tasmanian Forests Intergovernmental Agreement*, p.3.

37 DAFF, *Submission 9*, p. 8.

38 ANAO, *Submission 7*, p. 5.

39 *Journals of the Senate*, 25 February 2013, p. 3634.

40 ANAO, *Submission 7*, p. 5.

41 ANAO, *Submission 7*, pp 5-6.

- establishment of sound governance arrangements before releasing the program guidelines and draft funding deed;
- documentation of important aspects of the assessment processes; and
- development of measures to assess and report on program performance.⁴²

2.37 The ANAO made three recommendations which:

...were directed toward improving DAFF's grants administration practices by reinforcing the importance of:

- documenting all elements of the assessment process;
- informing applicants of significant changes to assessment methods used to determine grant funding offers outlined in the program guidelines; and
- preparing compliance strategies early in the design phase of grants programs.⁴³

2.38 DAFF agreed with the recommendations but in a response to the report stated that:

The [ANAO] report also recognises that the program was delivered in a challenging and condensed timeframe and notes the comments of the Joint Committee of Public Accounts and Audit...that the Government gives consideration to the capacity of agencies to comply with administrative requirements when delivering programs in compressed timeframes. The department considers that the timeframe along with the limited applicant group and the program's relationship to the broader range of initiatives designed to diversify the Tasmanian economy define the context in which the program was delivered.⁴⁴

2.39 The department again referred to the timeframe for the project in oral evidence:

...we believe we set up good guidelines and a good process and we delivered the program soundly. As Dr Tucker said in the opening statement, we accept that there are deficiencies in our administration of the program; we do not resile from those. We have accepted all three of the recommendations made by the ANAO. I would say again that the program was designed and delivered within relatively tight time lines and we believe we delivered on the objectives in accordance with the government's structures.⁴⁵

42 ANAO, *Submission 7*, p. 6.

43 ANAO, *Submission 7*, p. 6.

44 ANAO, *Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*, Audit Report No.22 2012-13, p. 26.

45 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 15 May 2013, p. 15.

Other assistance programs for the Tasmanian forestry industry

2.40 In 2010-11, DAFF administered the Tasmanian Forest Contractors Exit Assistance Program (TFCEAP), which provided up to \$17 million in grant funding to reduce business overcapacity by allowing eligible businesses to exit from the Tasmanian native forest harvest and haulage contracting sector.⁴⁶ Under the TFCEAP, 29 applicants received funding totalling \$16.89 million, with payments ranging from \$143 682 to \$750 000.⁴⁷

2.41 The Tasmanian Government also administered in 2010-11 the Tasmanian Forest Contractors Financial Support Program (TFCFSP). The TFCFSP provided up to \$5.4 million in assistance for harvest and haulage contractors who operated predominately in native forests to continue their operations.⁴⁸ Under the TFCFSP, 53 applicants received grant funding totalling \$5.37 million.⁴⁹

2.42 In September 2012, the Tasmanian and Commonwealth Governments announced the Tasmanian Native Forest High Quality Sawlog Contract Voluntary Buyback Program, based on Clause 23 of the IGA. The program was designed to allow eligible sawmillers, who held contracts with Forestry Tasmania for high-quality sawlogs, to voluntarily surrender all or part of their minimum contracted volume.⁵⁰

2.43 As at May 2013, the Tasmanian Department of Infrastructure, Energy and Resources is currently assessing applications with the objective that the required contracted volumes will be exited.⁵¹

Tasmanian Forests Agreement legislation

2.44 The Tasmanian Forests Agreement legislation was passed by the Tasmanian Parliament on the 30 April 2013.⁵² An updated version of the Tasmanian Forests Intergovernmental Agreement was signed by the Prime Minister and the Premier of Tasmania on 2 May 2013, which builds on the original agreement and has a greater focus on implementing the Tasmanian Forests Agreement legislation.⁵³

46 DAFF, *Tasmanian Forest Contractors Exit Assistance Program website*, www.daff.gov.au/forestry/national/tfceap (accessed 15 April 2013).

47 ANAO, *Submission 7*, p.3.

48 Tasmanian Department of Infrastructure, Energy and Resources, *Forests website*, www.dier.tas.gov.au/forests (accessed 9 May 2013).

49 ANAO, *Submission 7*, p. 3.

50 Tasmanian Department of Infrastructure, Energy and Resources, *Sawmillers Exit Package website*, www.forestsagreement.tas.gov.au/responding-to-change/sawmillers-exit-package (accessed 13 May 2013).

51 Tasmanian Department of Infrastructure, Energy and Resources, *Sawmillers Exit Package website*.

52 *Tasmanian Parliament Hansard*, 30 April 2013, p. 96.

53 Commonwealth and Tasmanian Governments, *Tasmanian Forests Intergovernmental Agreement*, August 2011, p. 2.

2.45 The passage of the legislation released the remaining \$277 million of joint Commonwealth and state funds as promised under the original IGA.⁵⁴ As a result the following commitments will receive funding:

- employment and training support will receive \$25 million to assist forest industry workers made redundant on or after 1 June 2011 as a result of the forestry industry restructuring;
- Rural Alive and Well will receive \$1 million to continue to provide mental health counselling for affected forestry workers and their families;
- the economic diversification package will receive \$100 million of funding over the next four years;
- the Tasmanian Regional Sawmiller Structural Adjustment Grants Program will receive \$10 million to assist the structural adjustment of regional sawmillers to changing market conditions;
- conservation projects including support for the ongoing management of additional reserves, planning of the World Heritage boundaries, the establishment of Special Council and certification of the Tasmanian public forests, will receive approximately \$34 million in funding; and
- plantation management, plantation investment and manufacturing innovation will receive \$24 million to encourage investment in improved plantation management for sawlog production.⁵⁵

2.46 The Tasmanian Department of Infrastructure, Energy and Resources will implement the Transitional Support for Affected Workers, and Support for Harvest, Haulage and Silviculture Contractor Business Exits Program included under the Tasmanian Forests Agreement. The program, which is similar to the IGACEP, will receive funding of \$20 million and has two objectives:

- (i) to assist contractors affected by the sawmill exits including workers directly impacted by the native forest industry restructure; and
- (ii) support harvest, haulage, silviculture and associated contractor businesses who wish to voluntarily exit the industry.⁵⁶

2.47 The committee heard at the May 2013 Budget Estimates that DAFF will work with the Department of Sustainability, Environment, Water, Population and

54 Tasmanian Department of Infrastructure, Energy and Resources, *Responding to change website*, www.forestsagreement.tas.gov.au/responding-to-change (accessed 13 May 2013).

55 Refer to Appendix 6 for the funding details of each commitment, Commonwealth and Tasmanian Governments, *Tasmanian Forests Intergovernmental Agreement*, May 2013, pp 11–13.

56 Commonwealth and Tasmanian Governments, *Tasmanian Forests Intergovernmental Agreement*, August 2011, p. 11.

Communities, which is the lead agency, to monitor the compliance with the programs implemented under the Tasmanian Forests Agreement.⁵⁷

57 *Estimates Hansard*, 28 May 2013, pp 72–73.

