



FORESTS NSW

ABN 43 141 857 613

121-131 Oratava Ave West Pennant Hills NSW 2125 (PO Box 100 Beecroft NSW 2119)

www.dpi.nsw.gov.au/forests T 02 9872 0111 F 02 9871 6941

Your ref: PAC317  
Our ref: MRI10/0030

Mr Paul Gibson MP  
Chair  
Public Accounts Committee  
Legislative Assembly  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000



Dear Mr Gibson

Thank you for your letter dated 17 March 2010 in which you sought advice on progress with implementation of the recommendations in the Auditor-General's Performance Audit Report No 185 '*Sustaining Native Forests*'.

You would be aware that Forests NSW initial written response was tabled in the NSW Parliament on 29 April 2009, along with Auditor General's Report. You will have noted that Forests NSW accepted all nine of the Auditor General's recommendations. A submission is attached outlining Forests NSW action taken to date on the implementation of each of the audit recommendations.

I appreciate your invitation to comment on the perceived benefits of the audit to Forests NSW. Besides those that I refer to in the submission tabled in the NSW Parliament, several benefits to Forests NSW arising from the Audit can be gleaned from the remarks in the attached progress report. The main benefit of the report is likely to be the added impetus it gave for Forests NSW to initiate significant changes to Native Forest Operations Branch and hardwood pricing.

In addition, I believe that the public interest in the cash loss incurred on native forest operations, as noted by the Auditor General, has raised the community's awareness that sustainable management of the State's natural resources demands achieving an appropriate balance between economic, social and environmental aspects.

I would welcome any comments that the Auditor General or the Committee may wish to make on this submission or the opportunity to discuss any relevant issues raised.

Yours sincerely

  
Nick Roberts  
Chief Executive

**PERFORMANCE AUDIT - SUSTAINING NATIVE FOREST OPERATIONS  
IMPLEMENTATION OF RECOMMENDATIONS**

RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
<p><b>1</b> <i>Upgrade its forestry management system for native forests to capture all harvesting results and other events which impact on yield.</i></p>	<p>Dec 2010</p>	<p><b>Status: On track</b></p> <p><b>Comment:</b> Consultation with Regional staff, scoping and design work has been completed for the native forest event management system. Construction of the database and GIS tools is progressing. The development work is on track for the system to be available to Forests NSW Regional Office staff to use by December 2010.</p>	<p>Forests NSW (Director Land Management and Forestry Services)</p>

2

*Finalise its net area and strike rate modifier studies to improve the accuracy of its estimates.*

Sept 2009

**Status: Partly implemented; Full implementation delayed.**

**Comment:**

Implementation involves two separate but related studies: a Net Harvestable Area Modifier Update (NHAMU) study and a strike rate modifier update study.

Reviews of strike rate modifiers for the South Coast, River Red Gum and Western Cypress forests are completed. Reviews are underway for the Alpine hardwoods in Tumut Sub-region and for Eden.

Data collation for the North Coast will commence in the third quarter of 2010.

A report will be available in October 2010 summarising the results of the state-wide reviews to that date.

Data for both studies comes from observation of current practices. However, these practices will undergo major changes over the ensuing months. Thus, if data were collected now, it would soon be out-of-date.

FNSW has embarked on a major re-engineering program that is designed to employ new technology, especially Global Positioning System (GPS) technology, in harvesting planning and operations. The system will provide contractors and machine operators with live (real-time) maps displaying their location and position relative to exclusion area boundaries. An important benefit from the project is the automated recording of exactly where the harvest machinery has traversed and point data showing the locations where saw-cuts are made.

Forests NSW believes that the new technology will alter machine operator behaviour. Among other outcomes, the increased operator awareness of harvest boundaries, combined with real-time tracking of harvest machine activity is anticipated to reduce errors. In turn this behavioural change will be reflected in the data available on the results of harvest operations.

Forests NSW proposes to defer the commencement of any further update study projects until the harvesting operational changes are bedded down over the next 12 months or so.

Forests NSW  
(Director Land Management and Forestry Services)

<p><b>3</b></p>	<p><i>Undertake and publicly report the results of:</i></p> <ul style="list-style-type: none"> <li><i>A review of yield estimates for native forests in Southern Region including Eden, South Coast &amp; Tumut</i></li> <li><i>A review of yield estimates for hardwood plantations</i></li> </ul>	<p>June 2010</p>	<p><b>Status: Reviews completed; public reporting on Forest NSW website by December 2010</b></p> <p><b>Comment:</b> Yield reviews have been completed for the South Coast sub-region and are underway for the Tumut and Eden sub-regions. The South Coast (and the 2009 North Coast) reviews have been released to industry stakeholders.</p> <p>The most up-to-date yield estimates have been used in the F2009 Discounted Cash Flow (DCF) valuation of the native forest estate.</p> <p>Similarly, a new estate model and report have been assembled for the hardwood plantations for the F2009 DCF valuation. This has been based on the most up-to-date available inventory. Predictions of future yields will be refined over time as the plantations mature and as harvesting estimates and actual yields become available.</p> <p>The progress of the native forest reviews was delayed because most of the available resources had to be diverted unexpectedly to assist in a Forests NSW Environmental Impact Statement to comply with a Land and Environment Court order. Forests NSW spent over \$1M of unbudgeted expenditure on the EIS. In addition, significant resources were devoted to yield studies to assist the Natural Resource Commission in its regional assessments of the Riverina red gum and southern cypress resources.</p>	<p>Forests NSW (Director Land Management and Forestry Services)</p>
<p><b>4</b></p>	<p><i>Publicly report the results of yield estimates for high quality large sawlogs, high quality small sawlogs, low quality logs and pulpwood for each region.</i></p>	<p>June 2010</p>	<p><b>Status: Reporting in 2009-10 Annual Report is on track</b></p> <p><b>Comment:</b> As stated above, estimates were calculated in order to underpin the recently-implemented Discounted Cash Flow method of valuation of Forests NSW native forest assets. Forests NSW expects to be able to publicly report on this information in its 2009 -2010 Annual Report.</p>	<p>Forests NSW (Director Land Management and Forestry Services)</p>

5	<p><b>Compare harvest results against its yield estimates over five year periods as a means of testing the accuracy of estimates Report the results annually starting June 2010.</b></p>	<p>June 2010</p>	<p><b>Status: Largely complete; public reporting on Forest NSW website by December 2010.</b></p> <p><b>Comment:</b>  Comparing results vs yield estimates can be approached in two ways:  1) <u>Strategic level harvest results compared with allowable cut.</u> This information has been presented in the NSW Progress Report on Implementation of the Regional Forest Agreements (Appendix 4 – page 225-228). Future annual updates will be reported on Forests NSW website.  2) <u>Reconciliation of standing inventory 2004 against standing inventory 2007 (incorporating growth and harvest removals)</u>  This work is largely completed for the north east regions and was reported to industry stakeholders in May 2010.</p> <p>Information is being prepared for Southern RFA Region and can be updated progressively when replacement inventory plot data is analysed. Results of this analysis will be published on Forests NSW website.</p>	<p>Forests NSW  (Director Land Management and Forestry Services)</p>
---	--	------------------	---	--

*Investigate the reasons for not meeting its private property targets for hardwood timber and develop better ways of addressing these.*

N/A

**Status:** The reasons for not meeting targets are discussed below. Forests NSW is working towards obtaining private property timber on a commercial basis.

**Comment:** Important background note to this recommendation is that the 'private property targets' were set in the ESFM Plans framed in 2005, not in the Regional Forest Agreements signed around 2000. Thus, the Government's ability to meet its Wood Supply Agreement commitments arising from the RFAs was not prefaced on meeting set private property supplementation targets.

Forests NSW ESFM plans were framed assuming a certain level of external funding for private property purchases would be forthcoming. The external funds actually allocated were less than anticipated and per unit costs higher than anticipated. Competition for millable logs forced up the price of rights to harvest standing timber as well as the price of timbered land, making it uneconomic for Forests NSW, as a Government Trading Enterprise, to purchase timbered land for timber production purposes alone.

Note that some of the funds earmarked for "private property purchases" have been used indirectly for that purpose by the purchase of land carrying regrowth timber. This timber will contribute to future timber supply within the wood supply commitment period.

Forests NSW has set up a Private Property Timber Supplementation business unit, on the basis that the Unit will become self-funding. The Unit is seeking to access private property timber resource and also to provide a paid service assisting private property growers to sell this timber for a fee or margin. In so doing, the Unit will be helping Forests NSW to achieve the remainder of the original intent of the private property supplementation program.

Forests NSW  
(Director,  
Native Forest  
Operations)

7

*Investigate the potential for developing commercial markets for forest waste.*

N/a

**Status: On-going**

**Comment:**

Forests NSW is always on the alert for marketing the full range of forest products. One promising opportunity emerging for "forest waste" is the renewable energy market. Forests NSW are undertaking a trial with Visy in the softwood plantations of Hume region on collecting post harvest waste for biofuel and potentially additional pulp quality material.

One of the lessons learnt from the Visy collaboration is that world-scale throughput is needed for it to be viable. Visy would have greater confidence to invest if native forest biofuel could be used as a supplementary fuel source if required. Currently this market is unavailable because Clause 97 of the Protection of the Environment Operations (General) Regulations 2009 prohibits the direct use of native forest biomaterial to generate electricity. However, this restriction does not apply to sawmill wastes and biomass sourced from Forests NSW plantations.

Forests NSW  
(Director,  
Commercial  
Services)

<p><b>8</b></p>	<p><i>Simplify and improve timber pricing by introducing a new pricing system by December 2009 that:</i></p> <ul style="list-style-type: none"> <li>• <i>Ensures log production costs are recovered</i></li> <li>• <i>Is transparent.</i></li> </ul>	<p>Dec 2009</p>	<p><b>Progress: New timber pricing system and approved price increase schedule are being progressively implemented.</b></p> <p><b>Comment:</b></p> <p>A new pricing system was developed and has been tested with industry over the past 12 months or so. The new system involves both price increases and simplification of the range of product categories.</p> <p>As the Auditor General noted, a significant increase in the price of native timber products pricing is essential for native forest operations to continue to operate on a long term sustainable basis.</p> <p>Forests NSW advised its high quality hardwood sawlog customers that it would apply the first of a series of six 3% price increases (over and above normal market-based price movements) over a 2-year period commencing from 1 April 2010.</p> <p>In response to consultation with industry, FNSW agreed to defer the implementation of a Timber Market Survey based price increase and a transition to a simpler pricing system until 1 July 2010 to allow for additional consultation.</p> <p>The proposed increases are based on the fundamental premise of full cost recovery for harvesting and haulage components to improve the financial sustainability along the whole supply chain.</p> <p>FNSW will continue to work with the timber industry in fine tuning the price system as its implementation progresses.</p>	<p>Forests NSW (Director, Commercial Services)</p>
-----------------	--	-----------------	---	--



<p><b>9</b></p>	<p><i>We recommend that the Minister responsible for native forest operations include yield review requirements that allow for non-compensable reduction in allocation, in all future wood supply agreements.</i></p>	<p>N/A</p>	<p><b>Status:</b> Supported in principle; the first opportunity to implement the recommendations may arise in framing the new Wood Supply Agreements (WSA) for supply of red gum timber following the enactment of the <i>National Parks (Riverina Red Gum Reservation) Bill 2010</i>.</p> <p><b>Progress:</b> Forests NSW fully supports the principle of introducing the proposed clauses into new and revised WSAs. Construction will require discussion with customers before Wood Supply Agreements are finalised. One major concern is that the presence of the proposed clauses may be seen as reducing industry's resource security, its incentive to invest and the marketability of the asset.</p> <p>Following industry consultation, Forests NSW will submit proposed new or revised WSA's for the consideration of the Minister.</p>	<p>Forests NSW (Director, Commercial Services)</p>
-----------------	---	------------	---	--