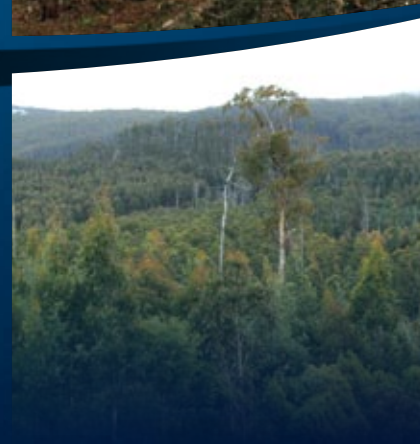


## Statement of Corporate Intent 2009/10 to 2011/12



# TABLE OF CONTENTS

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<b>Overview</b>	<b>4</b>
• Scope of Operations	5

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<b>Delivery of strategy</b>	<b>7</b>
• Performance against plan	7

---

<b>Business and industry context</b>	<b>10</b>
• The Victorian forest industries in the global context	10
• The national situation	11
• Business context	11

---

<b>Sustainability Charter for Victoria's State forests</b>	<b>16</b>
• Background	16
• Sustainable Forest Management System	16
• Corporate Plan	16

---

<b>Strategic Directions</b>	<b>17</b>
• Overview	17
• Key strategies	17

---

<b>Appendix One</b>	<b>26</b>
• Response to the Sustainability Charter for Victoria's State Forests, 2009/10	26

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<b>Table of Acronyms</b>	<b>34</b>
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## Our Vision

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To be a leader in a sustainable Victorian timber industry.

## Our Purpose

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To build a responsible business that generates the best community value from the commercial management of Victoria's State forests.

## Our Values

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**Accountable** - VicForests is accountable to the Victorian Government. Its actions and those of its employees must be consistent with relevant Government policy and priorities.

**Committed** - VicForests is committed to the fulfilment of its purpose and the achievement of its vision for the Victorian timber industry.

**Safe** - VicForests and its staff will manage safe workplaces for all staff and contractors, and are committed to continuous improvement in safety systems and outcomes, in accordance with its Occupational Health and Safety Policy.

**Customer focussed** - VicForests will be responsive to its customers' requirements and seek customer satisfaction, in accordance with its commercial nature.

**Ethical** - VicForests will operate in an ethical and environmentally responsible manner in all its undertakings to ensure the integrity and sustainability of the native forest timber industry in Victoria.

**Innovative** - VicForests seeks to be innovative and adaptable in its organisational, business and forestry management operations.

**Open** - VicForests will manage the commercial harvesting and sale of timber in a framework of openness and transparency.

**Professional** - VicForests and its staff will operate in a professional manner in all undertakings to ensure the best possible outcomes for the organisation, its customers, the Victorian timber industry and its stakeholders.

**Sustainable** - VicForests will pursue the highest standards for forest management practices through the continued development of its Sustainable Forest Management System and by ensuring its triple bottom line performance against the requirements of Victoria's Sustainability Charter for State forests.

## OVERVIEW

Commencing operations on 1 August 2004, VicForests was established as a State owned enterprise and is charged with responsibility for the sustainable harvesting and commercial sale of timber from Victoria's public forest estate. While the organisation is focused on making effective gains from this valuable forest resource, it is also required to manage harvesting in State forests in a way that maintains opportunities for multiple forest uses for future generations.

VicForests is regulated under the *Sustainable Forests (Timber) Act 2004* and the *State Owned Enterprises Act 1992*. Its sole shareholder is the Treasurer of Victoria.

VicForests' specific remit is to manage a commercial, market-based framework for the price-based allocation of native forest timber products for

future supply to timber processors. Its commercial role is separate from land stewardship and policy roles, ensuring a high degree of transparency in the management of commercial outcomes.

The native forest industry in Victoria continues to rationalise and evolve in line with global market pressures and the dynamic policy and industry environment within which it operates. VicForests' successful reforms have placed the organisation well to respond to and influence this dynamic environment.

This Statement of Corporate Intent describes how VicForests will respond to this dynamic environment during 2008/09 to 2011/12.





## Scope of Operations

VicForests undertakes the sustainable harvest, sale and delivery of certified native forest log products from State forest in eastern Victoria to about 35 customers in Victoria and southern NSW. Timber rights are granted to VicForests by the Department of Sustainability and Environment (DSE), through an Allocation Order and

Timber Release Plans which are instruments under the *Sustainable Forests (Timber) Act 2004*.

Forward sawlog sales are undertaken through Australia's only on-line, fully competitive log auction system. About 2 million m<sup>3</sup> of logs are sold each year, comprising more than 600,000 m<sup>3</sup> of E+ sawlog and about 1.4 million tonnes (t) of pulplogs.

## OVERVIEW

All forest management activities are certified to the Australian Forestry Standard (AS 4708) which has mutual recognition with Program for the Endorsement of Forest Certification Scheme (PEFC), the world's largest forest certification organisation.

VicForests operates through two regions in eastern Victoria – Central Highlands (Healesville) and East Gippsland (Orbost). Approximately 130 staff are located in 9 provincial locations and a Corporate Support Office in Melbourne.

Figure 1: VicForests' operating areas





# DELIVERY OF STRATEGY

## Performance against plan

VicForests' strategies for the period 2009/10 to 2011/12 build on the significant achievements which the organisation has made since its commencement on 1 August 2004. Within this time VicForests has implemented major reforms for the Victorian native forest processing industry and the native forest harvesting and haulage sector. These initiatives have delivered against the State Government's *Our Forests Our Future* policy commitments and the organisation's own commercial remit as described in the *Order in Council* with which VicForests was established. The key elements of this program of reform, which have now been successfully delivered, are outlined below.

### ***Implementation of an open, competitive, on-line sales platform***

The Price Allocation Model (PAM) has resulted in unit price increases of up to 50% for some log products. It has also facilitated rational consolidation in the Victorian native forest timber industry. Importantly, the PAM also meets Victoria's obligations under National Competition Policy requirements for State-owned forestry agencies.



### ***Moving from stumpage (in-forest) sales to mill door (delivered) sales***

The move from stumpage sales to mill door sales transformed VicForests into a commercial forest management and logistics business, with greater ability to manage the distribution of timber to the most appropriate and highest value markets. This initiative was critical to establishing the on-line auction system. It has also provided the basis for moving to open tender for the engagement of contract harvest and haul services, which is expected to generate further efficiencies in future.

### ***Achieving forest management certification***

VicForests has achieved forest management certification to the Australian Forestry Standard and is continuing to pursue certification to the alternative Forest Stewardship Council standard. This has provided for a sound framework for continuous improvement in the organisation, which is reflected in its improving environmental performance record. Certification also underpins the efforts of VicForests' customers to market their products domestically and internationally.

### ***Developing a sound understanding of VicForests' timber resource base and capacity to analyse***

VicForests has continued to develop its expert capacity in timber resource modelling and analysis. This has enabled the organisation to plan better its operational activities and collaborate with the Department of Sustainability and Environment on resource allocation processes.

### ***Moving VicForests to a modern, efficient, commercially-focused forestry business***

VicForests has completed its business model implementation and reorganisation. This process has resulted in a better alignment between VicForests' structure and its commercial remit, which will continue to generate organisational efficiencies.

## DELIVER OF STRATEGY

Last year's Corporate Plan signalled a transition in business focus from implementation of VicForests' major start-up reform agenda to commercial performance and continuous improvement. Progress has been made against the initiatives identified in this plan, despite the significant business and industry disruption resulting from the 2009 wildfires. Some of the highlights of these achievements are outlined below.

### ***Implementation of transparent arrangements for engagement of harvest and haulage services***

To enable a seamless transition to delivered sales in 2006, VicForests assumed responsibility for the harvest and haulage contractors which were previously contracted to or engaged by harvesting syndicates. In line with VicForests' stated intention at this time, based on a commitment to transparency in commercial arrangements, a competitive tender for all harvest and haulage services was completed in 2008. This significant achievement completed the implementation of delivered sales.

### ***Progress towards Forest Stewardship Council certification***

The Forest Stewardship Council (FSC) is an alternative internationally recognised certification scheme for forest management. VicForests is committed to the principles of FSC and is working with stakeholders to develop a way forward to achieve full FSC certification.

### ***Commencement of the Low Grade Log Sales project***

Initiatives to explore higher value market options for low grade logs have been consolidated into the Low Grade Log Sales project. This project aims to describe the properties of this resource, quantify its future availability, assess the feasibility of new market opportunities and determine the most appropriate method of marketing and allocation. The first two

stages of this work are largely complete, providing VicForests with greatly improved clarity on the characteristics of this resource and its suitability for potentially feasible markets. The estimation of future availability of this resource will be finalised once the impact of the 2009 wildfires is better understood. Further stages of marketing and allocation will progress during the 2009/10 financial year.

### ***Feasibility of supply of biomass for energy production with potential customers***

Work on this project, combined with market analysis, has demonstrated that opportunities exist to exploit waste material from existing harvesting operations commercially, particularly within a favourable policy environment. VicForests will continue to work on this project and explore opportunities to develop commercially feasible outcomes.

### ***Development of a Stakeholder Engagement Strategy***

VicForests engages with a range of stakeholders but acknowledges that it needs to do more to work effectively with the full range of stakeholders. A consolidated and long-term stakeholder engagement strategy has been completed. The outcomes of this strategy will be to: strengthen relationships and develop a unified and cohesive forest industry; establish understanding and positive perceptions of VicForests and the forestry industry; mitigate threats which may affect the reputation of VicForests; enable staff to understand their role in engagement by being active in dealing with stakeholders; and, establishing the most effective methods of communication for different groups and individuals. Implementation of this strategy will commence in 2009/2010.



### ***Development of process management tools to generate greater value with existing resources***

VicForests has explored the applicability of a number of process management models to improve business efficiency. Lean Management has been selected as a process improvement framework to provide management and staff with tools to review processes, improve efficiencies within processes and eliminate waste. VicForests' executive has already been trained and further training and implementation will occur throughout 2009/10.

### ***Implementation of a modern supply chain management system***

The formal implementation of phase one of VicForests' supply chain management system, *LogTracker*, was completed in 2008. Phase 2 of the implementation of *LogTracker* was planned to commence in the final quarter of 2008/09. This has not occurred as organisational resources were directed to fire suppression and recovery activities during this period. However, further improvement in the functionality of the system has been achieved and commencement of phase 2 of *LogTracker* will occur in 2009/10.

### ***Implementation of an Occupational Health and Safety system***

VicForests OH&S management system is now largely in place. An independent system audit was completed in June 2009 and indicated that there are no areas of non-conformance against the Australian Standard AS/NZS 4801. VicForests staff lost time injury frequency rate (LTIFR) has dropped from 17 to approximately 7 since the development of its OH&S management system. When benchmarked, this is between 35% and 110% better than other states in Australia.

VicForests' contractor workforce had a LTIFR of 20, which has increased from 10 in the first year of

mill-door sales. This is largely due to a significant improvement in incident reporting by contractors, enabling a logical benchmark to work from. Further evidence of the success of the implementation of the OH&S management system has been a reduction in haulage incidents by approximately 60% from 2007/08 to 2008/09.

The management of OH&S is now embedded within the business and will no longer be managed as a project through the Corporate Plan. VicForests OH&S management system will be managed on a continuous improvement basis with an ultimate target of no lost time injuries. The improvement target will be an annual reduction of 10% in lost time injury frequency rate for both staff and contractors.



## BUSINESS AND INDUSTRY CONTEXT



The context within which VicForests manages the business remains dynamic, particularly in response to the reforms which it has already implemented, the continued erosion of resource availability from fire and land use policy decisions, the volatility in domestic and global timber markets and the State and Federal forest policy frameworks that apply.

### The Victorian forest industries in the global context

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The Victorian forest industries operate in a global market context which affects its evolution to a rationalised and more competitive sector. Despite its domestic importance, the State's native forest sector is small in a global context and must be in a position to predict and respond to international trends and pressures in order to maintain its viability.

Nevertheless, the industry in Victoria has some clear advantages in this context, which are described in more detail below. This means that it is well placed

to address and respond to international trends in the future. Internationally, there are two specific issues which are of contemporary relevance to the industry in Victoria.

The issue of market preference and its relationship to the ongoing debate about certification is of particular relevance. It is clear that there is a global preference for timber which is produced under the auspices of Forest Stewardship Council certification. This is in contrast to timber produced under PEFC endorsed certification schemes, even though this is the dominant form of certification. This is a reality that a number of VicForests' customers are faced with when attempting to market their products internationally. VicForests has already achieved and maintained certification to the Australian Forestry Standard (which is PEFC endorsed) and has been working to achieve FSC certification. This work will continue during 2009/10. It is anticipated that FSC certification will provide VicForests' customers with a significant market advantage.

The second important international focus is *climate*



*change* and the emerging carbon economy. It is not clear how native forests and native forest products will be treated for the purposes of global conventions on carbon sequestration and trading. There are both risks and opportunities for the Victorian native forest timber industry in this context.

## The national situation

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### National Forest Policy Issues

The Federal Government has begun consideration of a new national forest policy framework to replace the 1992 National Forest Policy Statement. This represents a unique opportunity to modernise the policy. It is unlikely that the review will result in significant changes to the approach to native forest management directly. It is, however, anticipated that the policy review will address contemporary issues relating to the interplay between forest management, climate change and water.

VicForests' operations are undertaken in the context of the Regional Forest Agreements which are in place for eastern Victoria. These twenty year agreements were completed between 1996 and 2002 and are now overdue for mandated five year reviews. The DSE has commenced the review process with the Federal Government. When completed, the reviewed agreements are expected to reinforce the link between State and Federal forest policy.

The Federal Government's National Emissions Trading Scheme for greenhouse gas emissions will be a significant development for forest industries, and has specific implications for native forest managers which are discussed in more detail later in this plan. VicForests has been working with the State Government and the private sector to develop a consolidated approach to the treatment of forests in the eventual scheme.

## Business context

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### The Government's forest policy framework

The Department of Primary Industries (DPI) has developed the Draft Timber Industry Strategy (TIS) for Victoria which addresses a range of issues to take forest management and the timber industry forward, following the success of *Our Forests Our Future*. The draft TIS offers some useful proposals for assisting and rationalising the operations of the industry in Victoria. VicForests welcomes as a significant boost to the industry the proposals to enhance access to the resource, enhance the operation of efficient timber markets and both encourage investment and drive innovation. VicForests will continue to work closely with the DPI in the finalisation of the Timber Industry Strategy.

As part of its water white paper, *Our Water Our Future*, the Government is considering the impacts on future water supply for the city of harvesting in Melbourne's water catchments. Under Action 2.21 of the white paper, a number of future scenarios for harvesting in Melbourne's water catchments are being considered. These range from immediate cessation of harvesting to maintenance of the existing arrangements. The final recommendation has potentially significant implications for the future of native forest harvesting in Victoria. VicForests is represented on the technical working group and is a critical source of information and analysis for the project.

### Resource availability

A major risk to VicForests and Victoria's hardwood timber industry is lack of resource security and uncertainty around future resource availability. Following the 2006-07 Great Divide fires, the DSE and VicForests revisited the methodology for calculating

## BUSINESS AND INDUSTRY CONTEXT

sustainable harvest levels from Victoria's native forest estate. The purpose of this was to review the modelling methodology used in previous estimates and issue a statement of future sustainable harvest levels to improve certainty within the industry. This statement was intended as an interim estimate prior to the formal Allocation Order review in 2009. It was agreed, however, that the modelling methodology would be used in the review. DSE's base resource inventory data used in the modelling process ultimately determines the amount of resource available. JoSHL identified the fact that approximately 20% of the annual available resource would only be available viable under favourable conditions. Following on from this, VicForests has commenced detailed analysis of JoSHL to understand the viability of various harvesting levels across the forest estate.

Two significant impacts on future resource availability were not incorporated in JoSHL: the 2009 fires that burnt significant areas of the highest quality ash resource in the Central Highlands and a finalised



overlay of 'Old-growth' reservations in East Gippsland. These impacts will have a substantial effect on the quality and quantity of available timber in the future in both the Central Highlands and East Gippsland and will present a significant challenge for government in meeting the long term sustainable harvest levels indicated in JoSHL.

VicForests has continued to develop its forest resource modelling capability to improve its ability to forecast wood supply at strategic, tactical and operational level. Work will continue with DSE in a constructive manner to develop options for future supply to be incorporated in the 2009 Allocation Order review.

A declining resource base amplifies the need for industry to exploit higher value uses from traditionally lower value products by exploiting new technology and markets. The low grade log sales and feasibility of biomass feasibility projects are two examples of where VicForests are providing enabling mechanisms for industry to do this.

### Market dynamics

The Victorian hardwood timber industry continues to play an important role in the supply of timber products for both domestic and export markets. The industry also continues to evolve in the face of both short and long term challenges. These include adjustment to new sustainable harvest levels, rising input costs and increased competition from substitute products. The adoption of new technology, positioning in existing and new markets and promotion of Victoria's native forest timber products is essential for the industry to shape itself for the medium to long term.

Sawn timber production in Victoria is closely tied to the construction industry, both in the new housing construction and the additions and alterations sectors. As such, demand for sawn timber products will be



soft while housing demand is low during the current economic downturn and will remain so until economic growth returns. However, this softness in demand appears to be somewhat tempered by moderate activity in both the additions and alterations sector and in new housing starts as a result of first home buyers initiatives. The implication of the current economic climate is that demand for sawn timber will remain flat during 2009/10.

Woodchip volumes will be considerably down during 2009/10 as pulp and paper manufacture in Asia has slumped. Most major Australian woodchip exporters are reporting export volume reductions in the order of 30-40%. This demand is reflected in volumes requested from VicForests' woodchip customers. Similarly, domestic pulp and paper production will be

flat during 2009/10, although local manufacturers may be receiving some relief from imports with lower exchange rates.

In the medium-term, investment within the industry is likely provided that the commercial environment provides resource security and appropriate tenure. VicForests will seek to do this within the context of initiatives flagged within the draft Timber Industry Strategy and the finalisation of the Allocation Order review. VicForests will also continue to support Wood Products Victoria and Forest and Wood Products Australia, the state and national bodies responsible for wood and timber promotion. VicForests will continue and develop further a number of marketing initiatives to support higher value and sustainable markets for Victorian hardwood timber. This will include the

## BUSINESS AND INDUSTRY CONTEXT

continuation of the Low Grade Log Sales project and a review and implementation of its overall marketing strategy. VicForests will also continue to pursue certification to the Forest Stewardship Council and ensure the maintenance of AFS certification to support the market access and initiatives of its major customers.

### Stakeholder engagement

The success of VicForests' reforms so far is due in part to its focus on its stakeholder engagement model for major initiatives. The stakeholder environment within which VicForests operates continues to become more complex. In particular, the move to FSC certification, involvement in climate change and water policy issues and involvement in attempts to influence green building codes, have opened up new areas of stakeholder engagement for VicForests. These have also presented new opportunities for VicForests to develop collaborative partnerships with stakeholders to ensure influence on issues that affect the organisation's business performance.

VicForests recognises that the ongoing success of the business requires a shift from issue based engagement to a holistic and sustained approach to engagement. VicForests' stakeholders consist of the entire community of Victoria whose assets it manages and transforms to maximise value. A strategy has been developed that adopts techniques designed to engage effectively with an extensive audience which includes Government, customers, contractors, non-government organisations, media, employees, industry organisations and the general public. Implementation of this strategy will occur during 2009/10.

### Commercial environment

The future profitability of VicForests will be largely dependent on its ability to reduce its base cost and

realise sustainable improvements in its revenue base within a restricted market place. VicForests' Price Allocation Model has seen significant price increases, particularly for high grade sawlog, that will flow through over the next three years. Initiatives to seek higher and more stable revenue by exploring value added markets and diversifying its market base are being assessed for lower grade products.

VicForests' most significant costs are associated with harvesting and haulage. The 2008 tender process tested the market price for harvest and haulage service but ultimately resulted in overall increases in harvest and haulage costs. It is clear that there are still significant ways in which VicForests and its contracting fleet can improve its efficiency and reduce costs within this segment of the industry. During 2009/10, a range of targeted initiatives will be developed to identify areas of focus to improve the efficiency of harvesting and haulage operations, with ultimate cost savings to be realised in the medium to long term.

### Climate change

The Federal Government is still considering the framework for its Carbon Pollution Reduction Scheme (CPRS). In recognition of the role that forestry has in mitigating climate change, it is likely that forestry will be exempt under the scheme. VicForests has undertaken preliminary work to assess carbon flows in its estate. This work indicates that the Victorian commercial forest estate is relatively carbon neutral. However, the assumptions used are broad and the knowledge gaps still large. Climate change is expected to introduce an environment where droughts, storms and wildfires could become more frequent and severe, water could be scarcer, and there could be changes in the incidence of pest, weed and disease incursions. These factors could have biophysical impacts on our native forests.



Carbon emission trading schemes are emerging, both domestically and internationally, as the preferred market mechanism to achieve reductions in greenhouse gas emissions. Existing voluntary international emission trading schemes have demonstrated that forests can play an important role in offsetting greenhouse gas emissions by acting as carbon sinks. Market opportunities multiply further when the environmental credentials of timber as a building product are recognised. The opportunity for market recognition of timber as a renewable and environmentally-friendly building product will be increased.

The attractiveness and profitability of wood as a source of bioenergy may also increase as the cost of fossil-fuel-intensive energy increases under a CPRS and the rules under the expanded national renewable energy target scheme are finalised.

The Government's proposed CPRS recognises the inflationary effect that carbon trading will have on fuel prices, and the inability of existing fuel tax credits to address this issue. Therefore, it is implementing the CPRS Fuel Credit Scheme to offset the increased prices for affected businesses. However, forestry activities, despite currently receiving fuel tax credits, will be excluded. The exclusion of forestry activities from the CPRS Fuel Credit Scheme will have the greatest impact on forestry contractors. These small businesses are generally family-managed, employing local people in rural areas. With the additional financial pressure of rising fuel costs (as will be likely under the CPRS without access to the CPRS Fuel Credit Scheme) many of these businesses will be put under severe financial pressure to remain viable.

## 2009 Fires and their potential impact

The Victorian fires of February 2009 are considered to have been Australia's worst natural disaster and it will take time for affected communities to rebuild after such a significant impact on human life and property. The Victorian timber industry encompasses many of these communities and has also been severely affected by these fires. Over the last seven years, more than three million hectares of State forest in Eastern Victoria have been burnt by wildfire. The 2002/03 and 2006/07 fires resulted in a 12% reduction in harvest levels of sawlogs from 567,000m<sup>3</sup> p.a. to a potential maximum of 497,000m<sup>3</sup> per annum. Under the current methodology for setting harvest levels, the 2009 fires are expected to result in further reductions.

To assist in minimising the impact on industry and future sustainable yield, VicForests has prepared a detailed business plan to salvage at least 1.3 million m<sup>3</sup> of log products. Government has approved the business case and will meet some of the additional costs associated with undertaking the salvage program. Key performance indicators have been established to measure the VicForests' performance against the business case.

While the full impact of the 2009 fires is still being assessed, there will be both short and long term effects on VicForests and the Victorian hardwood timber industry. The long term impact on the industry may be significant and future options will need to be the subject of detailed work with the full range of stakeholders. Further reductions in harvesting levels will result in negative impacts on jobs, investment and fire suppression capability.

# SUSTAINABILITY CHARTER FOR VICTORIA'S STATE FORESTS

## Background

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In 2006 the Minister for the Environment and the Minister for Agriculture launched the Sustainability Charter for Victoria's State forests. The Charter is a requirement of Section 11 of the *Sustainable Forests (Timber) Act 2004*. In addition, VicForests is specifically required by Section 12 of the Act to respond to the objectives of the Sustainability Charter by developing initiatives and targets in support of those objectives.

VicForests has two primary mechanisms for addressing this requirement. The first is the VicForests' Sustainable Forest Management System (SFMS), which has been developed and certified to the Australian Forestry Standard. The second is VicForests' Corporate and Business Plans which are developed annually and which outline initiatives and strategies for the organisation.

## Sustainable Forest Management System

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VicForests' SFMS is designed around the requirements of the Montreal Process Criteria and Indicators which also form the basis of the Sustainability Charter. As part of the continuous improvement program incorporated into the SFMS, VicForests establishes objectives and targets for its activities and operations. These objectives and targets form one component of the initiatives and targets required to address the Sustainability Charter.

VicForests reports annually on performance against these objectives and targets in its Sustainability Report. The current objectives and targets for VicForests' SFMS are included in Appendix One to this Statement of Corporate Intent.

## Corporate Plan

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VicForests' Corporate Plan is prepared annually, and outlines strategies and initiatives for the next three years. Performance against these strategies and initiatives is reported each year in the VicForests Annual Report. The strategies and initiatives for the 2009/10 to 2011/12 financial years are also described below.





# STRATEGIC DIRECTIONS

## Overview

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Now that the organisation has completed its major reform agenda, VicForests' strategic directions for the 2009/10 to 2011/12 planning cycle reflect the new phase of stabilisation and maintenance of the new business model and organisational structure in an uncertain economic environment. Accordingly, VicForests has reviewed its forward strategy to address a new set of challenges. The new strategic directions are presented in Figure 2 and described below. All of the initiatives outlined in this plan will be subject to the development and approval by the Board of robust businesses cases detailing estimated project costs and expected benefits.

## Key strategies

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### Strategy 1: Secure sustainable improvements in revenue base from new market opportunities and improving product and value recovery

VicForests is committed to driving productivity and efficiency gains through a clear definition and analysis of key business processes. The implementation of both the price allocation model and mill door sales has resulted in improved clarity around VicForests' core function of harvesting and selling timber. Certification has delivered a framework for continuous improvement in the business. The implementation of VicForests' business model review and reorganisation has provided a platform for examining further performance and efficiency gains.

VicForests has established a new business development function which is intended to identify and capitalise on strategic business growth opportunities. Together, these offer opportunities for VicForests to generate greater value from across the supply chain, from its own internal activities through to the end market.

## Objectives

To increase VicForests' revenue base by:

- Realising the market potential of existing business development opportunities
- Developing new business opportunities for currently unutilised timber resources
- Maximising the value of log products from existing harvesting operations

### *Initiative 1.1: Implement the Low Grade Log Sales Project*

VicForests has been undertaking several initiatives that will augment its level of knowledge about future marketing of low grade timber resources. These include: a Development Agreement with a company for the sale of unutilised residues as biomass from East Gippsland; assessment of the feasibility of OSL manufacturing from low grade resource in East Gippsland; the Joint Sustainable Harvest Levels project with DSE; the development of a thinning strategy; and, preliminary discussions with new and potential customers as part of the preparation of a Business Development Action Plan. All these initiatives had been operating somewhat in isolation but have provided important information and an improved picture on potential marketing opportunities for low grade log resource. The low grade log sales project will describe, market and allocate future uncommitted low grade log resources in a manner which delivers the greatest returns for VicForests. A detailed business case was presented to VicForests' Board in 2008 and the initial stages of the project were approved.

## STRATEGIC DIRECTIONS

The proposed project will operate in five stages:

1. Resource description
2. Communications strategy
3. Marketing
4. EOI and qualification
5. Competitive Allocation

### Outcomes

This project will improve industry understanding of the low grade timber resource and the potential markets available to VicForests. It will provide a competitive framework for the pricing and allocation of low grade logs that meets government policy requirements. It will clarify policy issues that constrain VicForests' ability to operate commercially and realise the market value of its timber resources. The final outcome is improved value from low grade log products with investment in value-adding that provides sustainable long-term returns for VicForests.

### *Initiative 1.2: Undertake feasibility of supply for biomass energy production with potential customers*

The Draft Timber Industry Strategy has signalled the fact that opportunities exist in the development of commercial supply arrangements for unutilised woody biomass from existing harvesting operations for the generation of energy. This initiative offers an opportunity to sell material that is not suitable for our current customer base and is cut to waste in the forest as part of normal harvesting operations. During 2007/08, VicForests held preliminary discussions with potential investors in biomass energy technology. VicForests has entered into an agreement with a third party to explore the feasibility of utilising woody

biomass for the production of gas for energy. Field trials have been completed in partnership with the proponent. VicForests has completed comprehensive cost modelling and, subject to Government policy, is ready to seek commercial partners for the supply of woody biomass. VicForests will also begin to explore more sophisticated collection and transportation methods.

### Outcomes

An improved understanding of commercial opportunities within the current policy constraints and finalisation of a commercial supply agreement.

### *Initiative 1.3: Review of VicForests' Strategic Marketing and Business Development Plans*

Key influences on VicForests' marketing strategies are its customer base, market trends in end product markets, and the market position of VicForests. Current demand for hardwood logs sold by VicForests is derived from the demand for sawn timber and pulp and paper. Logs are generally sold to processors located within or close to Victoria. Sawn timber, pulp and paper however are traded within national and/or international markets and hence are subject to more widely based competition. These market structures mean that while the prices paid for logs sold by VicForests are dependent on the level of competition between domestic log processors, they are also dependent on conditions in end product markets for wood based products.

VicForests developed a detailed Strategic Marketing Plan in 2005. Most of the priority initiatives in this plan are now complete and a review of this document is required to identify the next suite of marketing and business development initiatives. VicForests will consult with staff and industry in developing these. However,



based on feedback already received, it will include marketing of mixed species and D grade ash sawlog, a review of VicForests' log grading system in the context of a changing resource base and market demand, improvements in log recovery from operations and viable opportunities for new business.

### Outcomes

A clearly articulated marketing and business development strategy, detailing priority initiatives, timelines and outcomes.

### Strategy 2: Implement a targeted program of continuous improvement in business processes and activities to consolidate initiatives and reduce costs

In consolidating its past achievements and improving its commercial performance, VicForests has naturally shifted to a phase of continuous improvement to raise business efficiency. VicForests now has an organisational structure that aligns with its business model and with the further development and implementation of process management systems will identify key initiatives to reduce its costs during this planning cycle.

### Objectives

To improve efficiency, eliminate waste and reduce costs by:

- Improving business processes and their application to generate greater value from existing resources
- Generating greater value from VicForests' business systems
- Ensuring continuous improvement in VicForests' compliance with external regulatory requirements
- Improving staff and contractor efficiency

### *Initiative 2.1: Achieve cost savings through a suite of targeted initiatives*

VicForests will use a range of forums to identify initiatives to improve its business efficiency and reduce costs across its major expenditure items. This process will include the establishment of teams across the organisation to investigate its processes for major cost items to identify opportunities to improve efficiency and eliminate waste. Key areas that will be considered include haulage optimisation, harvesting productivity and road management. VicForests is already participating in the industry wide CRC for Forestry Harvest and Operations program and will leverage from this to identify ways to further develop the harvest and haulage sector. A set of initiatives will be prioritised from these teams for implementation during the planning cycle of this plan.

### Outcomes

A suite of targeted initiatives to improve business efficiency, eliminate waste and reduce cost.

### *Initiative 2.2: Implement Phase 2 of LogTracker*

Phase 1 of VicForests' supply chain management system, *LogTracker*, has been completed. Phase 2 of *LogTracker* involves the development of field data capture capacity for log product data. The first step in phase 2 is to build the business case and commence a pilot project to prove the technology.

### Outcomes

Field data capture will reduce the reliance on manual data entry and reduce inefficient travelling and office time for field base staff. This is expected to generate long term cost reductions for the business which requires further analysis.

## STRATEGIC DIRECTIONS



### *Initiative 2.3: Implementation of lean thinking process management model*

A number of formal process management models, such as Lean Thinking and Six Sigma, are available in the market place. In order to continue to refine its business processes and identify additional areas of efficiency and performance improvement, VicForests has assessed the applicability of such models to the business with a view to implementation during this business planning cycle. Lean Management has been selected to provide management and staff with tools to review processes, improve efficiencies within processes and eliminate waste. VicForests' executive has already been trained and further training and implementation will occur throughout 2009/2010.

### Outcomes

VicForests anticipates the generation of business process efficiencies and associated cost savings as a consequence of further analysis of its business processes and elimination of waste.

**Strategy 3: Develop and implement an integrated stakeholder engagement strategy to enhance relationships and partnerships that will underpin VicForests' success**

### *Initiative 3.1: Implement a consolidated Stakeholder Engagement Strategy*

A number of opportunities and threats outlined in the corporate plan will require effective consultation with key stakeholders. VicForests must continue to focus on building effective stakeholder networks and coalitions to address key issues affecting VicForests. Stakeholder engagement for FSC certification will require specific attention under this strategy. Effective stakeholder engagement is a key factor to ensure the success of strategic initiatives. This initiative underpins the entire strategic plan.

### Outcomes

The key outcomes of this strategy will be to: strengthen relationships and develop a unified and cohesive forest industry; establish understanding and positive perceptions of VicForests and the forestry industry; mitigate threats which may impact on the reputation of VicForests; enable staff to understand their role in engagement by being proactive in dealing with stakeholders; and, establishing the most effective methods of communication for different groups and individuals.



Figure 2: VicForests' Strategic Directions 2008/09 to 2010/11

Strategy Drivers	Strategies	Strategy Objectives	Strategic Initiatives
The need to grow VicForests' revenue base	Secure sustainable improvements in revenue base by exploiting new market opportunities and improving product and value recovery	<ul style="list-style-type: none"> <li>Realise the market potential of existing business development opportunities</li> <li>Capitalise on the potential certification marketing advantage</li> <li>To maximise value of log products from existing harvesting operations</li> </ul>	<ul style="list-style-type: none"> <li>Implement the Low Grade Log Sales project</li> <li>Undertake feasibility of supply for biomass energy production with potential customers</li> <li>Review of VicForests' Strategic Marketing and Business Development plans</li> </ul>
Resource security and availability			
The need to reduce VicForests' cost base	Implement a targeted program of continuous improvement in business processes and activities to consolidate initiatives, eliminate waste and reduce costs	<ul style="list-style-type: none"> <li>Improve business processes and their application to generate greater value from existing resources</li> <li>Generate greater value from VicForests' business systems</li> <li>Ensure continuous improvement in VicForests' compliance with external regulatory requirements</li> <li>Improve staff and contractor environmental and safety performance and systems</li> </ul>	<ul style="list-style-type: none"> <li>Achieve cost savings through a suite of targeted initiatives</li> <li>Implement Phase 2 of <i>LogTracker</i></li> <li>Implementation of lean thinking process management model</li> </ul>
The need for improved organisational efficiency			
The need to improve contractor and staff performance			
Sustainability issues : regulation, climate change, water, certification	Develop and implement an integrated stakeholder engagement strategy to enhance relationships and partnerships that will underpin VicForests future success	<ul style="list-style-type: none"> <li>Strengthen relationships and develop a unified and cohesive forest industry</li> <li>Improve understanding and positive perceptions of VicForests and the timber industry</li> <li>Mitigate threats which may impact on the regulation of VicForests</li> <li>Enable staff to understand their role in engagement and be proactive in dealing with stakeholders</li> <li>Establish the most effective methods of communication for stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Implement a consolidated Stakeholder Engagement Strategy</li> </ul>
Governance of sustainable Forest management			
VicForests' complex stakeholder environment			

## STRATEGIC DIRECTIONS

Figure 3: Projected timelines

VicForests' Strategic Directions													
Strategy	Goals	Timelines											
		2009/10				2010/11				2011/12			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1: Secure sustainable improvements in revenue base from new market opportunities and improving product and value recovery	1.1: Implement the Low Grade Log Sales Project												
	1.2: Undertake feasibility of supply for biomass energy production with potential customers												
	1.3: Review of VicForests' Strategic Marketing and Business Development Plans												
2: Implement a targeted program of continuous improvement in business processes and activities to consolidate initiatives and reduce costs	2.1: Achieve cost savings through a suite of targeted initiatives												
	2.2: Implement Phase 2 of <i>LogTracker</i>												
	2.3: Implementation of lean thinking process management model												
3: Develop and implement an integrated stakeholder engagement strategy to enhance relationships and partnerships that will underpin VicForests' success	3.1: Implement a consolidated Stakeholder Engagement Strategy												

# MEASURING PERFORMANCE



VicForests' performance targets for the next three years are described in Table 1.

*Table 1: Performance targets*

## Financial performance measures

Indicator	Description	Frequency	Targets		
			2009/10	2010/11	2011/12
EBIT to budget	The percentage of year to date EBIT (Earnings Before Interest and Tax) that is within budgeted amount.	Monthly	100% or greater	100% or greater	100% or greater
Revenue to budget	The percentage of year to date revenue that is within budgeted amount.	Monthly	100% or greater	100% or greater	100% or greater
Indirect expenses to budget	The percentage of year to date indirect expenses (overheads) that is within budgeted amount.	Monthly	100% or less	100% or less	100% or less
Direct expenses to budget	The percentage of year to date direct expenses (harvest and haul) that is within budgeted amount.	Monthly	100% or less	100% or less	100% or less
Debtor days outstanding	This indicator is a measure of the average number of days that customer debt was outstanding at period end.	Monthly	Less than 45 days	Less than 45 days	Less than 45 days
Product Gross Margins	Grow product gross margins from year to year.	Annual	>100%	>100%	>100%

## MEASURING PERFORMANCE

### Staff and contractor measures

Indicator	Description	Frequency	Targets		
			2009/10	2010/11	2011/12
Lost time injury frequency rate - staff	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' direct employees.	Monthly	7	6.3	5.7
Lost time injury frequency rate - contractors	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' contractors.	Monthly	20	18	14.4
Project plans on-time, in-budget	There are a number of projects being undertaken by VicForests. This is a composite measure to track their progress.	Quarterly	97%	98%	99%
Delivered in Full and On Time (DIFOT)	This indicator measures the extent to which customer orders are Delivered In Full and On Time. It reflects VicForests' performance in delivery and consistency of supply.	Monthly	94%	96%	98%

### Environmental performance measures

Indicator	Description	Frequency	Targets		
			2009/10	2010/11	2011/12
Environmental performance score	This measure tracks the extent to which VicForests' harvesting contractors meet environmental coupe requirements as prescribed by VicForests.	Monthly	95%	96%	97%
Coupe Monitoring Records completed	This measure tracks the rate at which formal coupe monitoring records are completed during the period.	Monthly	90%	95%	97%



## Process measures

Indicator	Description	Frequency	Targets		
			2009/10	2010/11	2011/12
Tactical planning performance	This is a measure of the number of years of approved volume against sales commitments.	Annual	3	3	3
Roadworks completed against plan	This measure tracks the extent to which major roadworks are completed on time. It will also indicate the quality of VicForests' planning estimates.	Monthly	94%	95%	96%
Silviculture liability	This is a measure of the amount of coupes that have been harvested and not regenerated and handed back to DSE.	Annual	Not greater than last three years harvest area	Not greater than last three years harvest area	Not greater than last three years harvest area
Cubic metre logged per staff	This measure will track general efficiency improvements in VicForests' operations.	Annual	2% increase on 2008/09	2% increase	2% increase

## Salvage

Indicator	Description	Frequency	Targets		
			2009/10	2010/11	2011/12
Timber volume harvested	The volume harvested from salvage operations against business plan (m <sup>3</sup> ).	Quarterly	100% or greater	100% or greater	n/a
Mill door timber value	The mill door value of timber harvested from salvage operations against the business plan (\$).	Quarterly	100% or greater	100% or greater	n/a
Processed timber value	A measure of economic value of salvage operations to the industry and State economy.	Quarterly	100% or greater	100% or greater	n/a
Employment	A measured of employment by the salvage and recovery program.	Quarterly	350	55	n/a
Regeneration	Area salvage harvested against area reseeded.	Quarterly	100%	100%	n/a

## APPENDIX ONE

## Response to the Sustainability Charter for Victoria's State Forests, 2009/10

VicForests' Strategy	Strategic Objectives	Initiatives/Projects	1. To maintain and conserve biological diversity in State forests
1. Secure sustainable improvements in revenue base by securing new market opportunities, improving product and value recovery	To increase VicForests' revenue base by: <ul style="list-style-type: none"> <li>• Realising the market potential of existing business development opportunities</li> <li>• Developing new business opportunities for currently unutilised timber resources</li> <li>• Maximising the value of log products from existing harvesting operations</li> </ul>	Implement the Low Grade Log Sales Project	
		Undertake feasibility of supply for biomass energy production with potential customers	
		Review of VicForests' Strategic Marketing and Business Development Plans	
2. Implement a targeted program of continuous improvement in business processes and activities to consolidate initiatives and reduce costs	To improve efficiency, eliminate waste and reduce costs by: <ul style="list-style-type: none"> <li>• Improving business processes and their application to generate greater value from existing resources</li> <li>• Generating greater value from VicForests' business systems</li> <li>• Ensuring continuous improvement in VicForests' compliance with external regulatory requirements</li> <li>• Improving staff and contractor efficiency</li> </ul>	Achieve cost savings through a suite of targeted initiatives	
		Implement Phase 2 of <i>LogTracker</i>	
		Implementation of lean thinking process management model	
3. Develop and implement an integrated stakeholder engagement strategy to enhance relationships and partnerships that will underpin VicForests	The improve stakeholder engagement by: <ul style="list-style-type: none"> <li>• Strengthening relationships and seek to develop a unified and cohesive forest industry</li> <li>• Establish understanding and positive perceptions of VicForests and the forestry industry;</li> <li>• Mitigate threats which may impact on the reputation of VicForests;</li> <li>• Enable staff to understand their role in engagement by being proactive in dealing with stakeholders</li> <li>• Establishing the most effective methods of communication for different groups and individuals.</li> </ul>	Implement a consolidated Stakeholder Engagement Strategy	



## APPENDIX ONE

Table 1(b): Response to the Sustainability Charter for Victoria's State forests – VicForests' Sustainable Forest Management System objectives, actions and targets

SFMS Objectives	Initiatives/Actions	Targets	1. To maintain and conserve biological diversity in State forests
1. Minimise the impact of timber harvesting operations on root-regenerating understorey species	Implement process and procedure to monitor the survival and regeneration of root-regenerating species	1 October 2009	
2. Maximise the economic returns from harvesting operations	Improve accuracy of log grading	Develop an improved process and procedure to assess and monitor log grading by December 31, 2009	
3. Reduce the impact of burning operations on local communities	Implement smoke modelling guidelines for VicForests' burning operations	December 31, 2009	
4. Rainforest buffer study	Develop a joint DSE-VicForests study to determine effectiveness of minimum 40 metre rainforest buffers	Complete literature review by July 31, 2009 Develop implementation plan by December 31, 2009	
5. Increase the long-term retention of retained trees	Continue implementation of the retained tree long-term monitoring program	Re-assess 16 sites by December 31, 2009	
6. Decrease the level and extent of soil compaction in coupes	Continue implementation of the retained tree long-term monitoring program	Re-assess 16 sites by December 31, 2009	
7. Reduce the impact of dust and noise from VicForests' activities	Develop and implement dust management guidelines	June 30, 2010	
	Develop and implement guidelines for reducing noise impact	June 30, 2010	
8. To minimise the risk of fuel and oil spills by improving the management and storage of this material on coupes	Increase the average annual score for fuel and oil store bunding on the coupe monitoring record from 93% compliant to 96% compliant over the period 2009/10.	96%	
9. Understand the impact of VicForests' activities on forest carbon cycles	Model the impact of VicForests' activities on forest carbon cycles	Update VicForests' carbon model by 30 September 2009	
10. Understand the growth response from thinning operations	Develop thinning response curves for ash and mixed species forest	June 30, 2010	



2. To maintain and improve the capacity of forest ecosystems to produce wood and non-wood products	3. To promote healthy forests by actively managing disturbance	4. To maintain and conserve the soil and water resources of State forests	5. To maintain and better understand the role of Victoria's forests in the global carbon cycles	6. To maintain and enhance the socio-economic benefits of State forests to Victorian communities	7. To ensure Victoria's legal, institutional and economic frameworks effectively support the sustainable management of State forests
Dark	Dark	Dark	Light	Light	Light
Dark	Light	Light	Light	Dark	Light
Light	Light	Light	Light	Dark	Light
Light	Dark	Light	Light	Light	Light
Light	Dark	Light	Light	Light	Light
Dark	Light	Dark	Light	Light	Light
Light	Light	Light	Light	Dark	Light
Light	Light	Light	Light	Dark	Light
Light	Dark	Dark	Light	Light	Light
Light	Light	Light	Dark	Light	Light
Dark	Light	Light	Light	Light	Light

## APPENDIX ONE

Table 1(c): Response to the Sustainability Charter for Victoria's State forests – VicForests' Key Performance Indicators

Key Performance Indicator	Initiatives/Actions	Targets	1. To maintain and conserve biological diversity in State forests
EBIT to budget	The percentage of year to date EBIT (Earnings Before Interest and Tax) that is within budgeted amount.	100% or greater than budget	
Revenue to budget	The percentage of year to date revenue that is within budgeted amount.	100% or greater than budget	
Indirect expenses to budget	The percentage of year to date indirect expenses (overheads) that is within budgeted amount.	100% or less than budget	
Direct expenses to budget	The percentage of year to date direct expenses (harvest and haul) that is within budgeted amount.	100% or less than budget	
Debtor days outstanding	This indicator is a measure of the average number of days that customer debt was outstanding at period end	Less than 45 days	
Product Gross Margins	Grow product gross margins from year to year.	>100%	
Lost time injury frequency rate - staff	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' direct employees	7	
Lost time injury frequency rate - contractors	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' contractors.	20	
Project plans on-time, in-budget	There are a number of projects being undertaken by VicForests. This is a composite measure to track their progress	97%	
Delivered in Full and On Time (DIFOT)	This indicator measures the extent to which customer orders are Delivered In Full and On Time. It reflects VicForests' performance in delivery and consistency of industry supply.	94%	
Environmental performance score	This measure tracks the extent to which VicForests' harvesting contractors meet environmental coupe requirements as prescribed by VicForests	95%	
Coupe Monitoring Records completed	This measure tracks the rate at which formal coupe monitoring records are completed during the period	90%	



## APPENDIX ONE

Key Performance Indicator	Initiatives/Actions	Targets	1. To maintain and conserve biological diversity in State forests
Tactical planning performance	This is a measure of the number of years of approved volume against sales commitments	3 years	
Roadworks completed against plan	This measure tracks the extent to which major roadworks are completed on time. It will also indicate the quality of VicForests' planning estimates.	94%	
Silviculture liability	This is a measure of the amount of coupes that have been harvested and not regenerated and handed back to DSE.	Not greater than last three years harvest area	
Cubic metre logged per staff	This measure will track general efficiency improvements in VicForests' operations	2% increase on 2008/09	
Salvage timber volume harvested	The volume harvested from salvage operations against business plan (m <sup>3</sup> )	100% or greater than plan	
Mill door salvage timber value	The mill door value of timber harvested from salvage operations against the business plan (\$)	100% or greater than plan	
Processed salvage timber value	A measure of economic value of salvage operations to the industry and State economy.	100% or greater than plan	
Employment in salvage program	A measured of employment by the salvage and recovery program.	350	
Salvage regeneration	Area of salvage harvest against area reseeded	100%	



## TABLE OF ACRONYMS

Acronym	Definition
AFS	Australian Forestry Standard
AO	Allocation Order
CPRS	Carbon Pollution Reduction Scheme
CSO	Corporate Support Office (Melbourne)
DIFOT	Delivered in Full and On Time
DPI	Department of Primary Industries
DSE	Department of Sustainability and Environment
DTF	Department of Treasury and Finance
Dumps	Timber storage facilities
EBIT	Earnings Before Interest and Taxes
FSC	Forest Stewardship Council
FTE	Full Time Equivalent
FWPA	Forest and Wood Products Association
ITT	Industry Transition Taskforce
JoSHL	Joint Sustainable Harvest Levels (Statement) – published May 2008
LTIFR	Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked)
MDS	Mill Door Sales
OFOF	Our Forests Our Future – State Government Policy Statement published February 2002
OSL	Oriented Strand Lumber
PAM	Price Allocation Model
PEFC	Program for the Endorsement of Forest Certification (Scheme)
SFMS	Sustainable Forest Management System
SFTA	Sustainable Forests (Timber) Act 2004
SGARA	Self Generated and Regenerated Assets
Stumpage	Timber value (excluding harvesting and haulage)
SWOT	Strengths Weaknesses Opportunities Threats
TCV	Treasury Corporation of Victoria
TIS	Timber Industry Strategy
TRP	Timber Release Plan
TSA	Timber Sales Agreement
VF	VicForests
VAGO	Victorian Auditor General Office
WPV	Wood Products Victoria



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Telephone: 03 9608 9500

Email: [vfs.admin@vicforests.com.au](mailto:vfs.admin@vicforests.com.au)

Website: [www.vicforests.com.au](http://www.vicforests.com.au)



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