

Corporate and Business Plan Highlights 2008/09 – 2010/11





ABOUT VICFORESTS

Commencing operations on 1 August 2004, VicForests was established as a State business corporation and is charged with responsibility for the sustainable harvest and commercial sale of timber from Victoria's public forest estate. While the organisation is focussed 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 the land stewardship and policy

roles, ensuring a high degree of transparency in the management of commercial outcomes.

VicForests is expected to operate the business as efficiently as possible. Consistent with prudent commercial practice, it must be commercially focussed in the delivery of efficient, sustainable and value for money services, and operate in a framework aligned with Victorian Government policy and priorities.

During the 2007/08 financial year VicForests completed a comprehensive business model review and reorganisation to better align its structure, operations and geographic distribution with changed and emerging business priorities and to address the impacts on the business of the 2006/07 Great Divide fires. This process has completed VicForests' evolution from a bureaucratic, compliance focussed organisation to a commercially focussed, modern forestry business.



ABOUT THIS PLAN



VicForests is now entering its fifth operating year having successfully delivered all the elements of its start-up reform agenda, in line with 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 it was established.

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 corporate plan describes how VicForests will go about this process from 2008/09 to 2010/11.



Vision, purpose and values

Our Vision

To be a leader in a sustainable Victorian timber industry.

Our Purpose

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

Our values

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 meets the requirements of Victoria's Sustainability Charter for State forests.



ABOUT THIS PLAN

Delivery of strategy

Performance to plan

The organisation's first Corporate Plan described an ambitious program of reform for the business and for the native forest processing sector in Victoria. Key elements of this program, which have now been successfully delivered, are outlined below.

The move to 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.

Developing a sound understanding of VicForests' timber resource base and capacity to analyse: The quality of information used by VicForests to undertake resource analysis has improved dramatically since business commencement. VicForests has developed expert capacity in timber resource modelling and analysis which has enabled the organisation to collaborate more effectively with the Department of Sustainability and Environment and to manage better its operational activities. This has been demonstrated particularly in VicForests' response to the 2006/07 Great Divide fires, the development of the subsequent fire salvage program and its review of the methodology for calculating sustainable harvest levels which has resulted in the Joint Sustainable Harvest levels project with DSE.

Moving from stumpage (in-forest) sales to mill door (delivered) sales: The move from stumpage sales to mill door sales has transformed VicForests to a commercial forest management and logistics business, with greater supply chain knowledge and control and

improved ability to manage the distribution of timber to appropriate markets in the most efficient manner. This move was critical to underpin the success of 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.

Achieving forest management certification:

VicForests has achieved forest management certification to the Australian Forestry Standard and is currently pursuing certification to the alternative Forest Stewardship Council scheme. 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.

Moving VicForests to a modern, efficient, commercially-focussed forestry business:

VicForests has now completed its new 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.





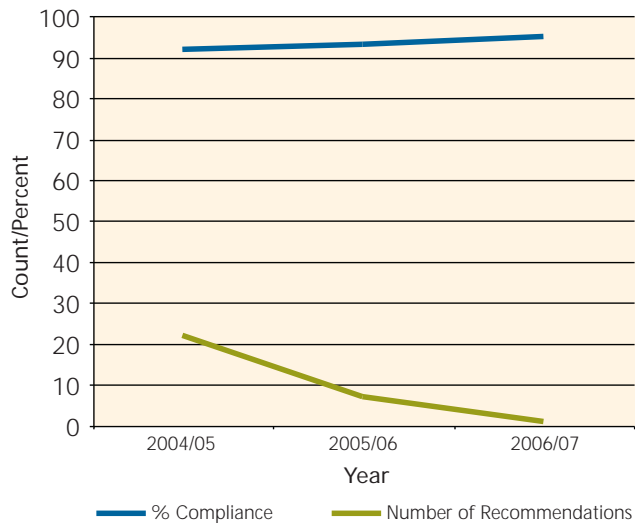
Environmental performance

The introduction of VicForests' Sustainable Forest Management System (SFMS) has resulted in measurable improvements in the environmental performance of forest management operations on State forest.

Figure 1 graphs the improvement in VicForests' environmental compliance scores in EPA audits undertaken since 2004/05. It also shows the downward trend in the number of recommendations that the EPA has made for improved performance. Compliance has improved and the number of recommendations has decreased since VicForests took over responsibility for commercial activities on State forest.

These results are also reflected in VicForests' third party certification audit results and its own internal audit results over the same period, which have shown a steady improvement in the performance of the SFMS.

Figure 1: EPA environmental audit results since VicForests commenced operations



New Initiatives

VicForests is undertaking a number of specific marketing initiatives to support the Victorian timber industry. Some of these initiatives include:

- The establishment of a dedicated business development unit to manage the strategic market position of VicForests and to facilitate commercially feasible business opportunities with industry
- Review of VicForests' marketing strategy and the development of a business development action plan
- Determine the feasibility of new product opportunities for harvest residues including composite and engineered lumber and panel markets
- Determine options and VicForests' role for commercial opportunities in ecosystem service markets
- Identify long-term marketing strategies for low grade sawlog and unallocated mixed species including veneer production
- Working with other hardwood log producers to establish a National Hardwood Log Price Index.

STRATEGIC DRIVERS



Resource availability

Following the 2006/07 Great Divide fires, VicForests and the Department of Sustainability and Environment revisited the methodology for calculating sustainable harvest levels from Victoria's native forest estate. The Joint Sustainable Harvest Levels (JoSHL) project has resulted in a peer-reviewed statement of resource availability for the next 15 years. The study has given confidence that there is up to 500,000 m³ of D+ sawlog available each year from eastern Victoria's State forests.

This assessment provides significant confidence for the Victorian native forest timber industry about the amount of timber that it can compete for at auction. It also opens up three important questions.

The first is the question of length of tenure. Currently, VicForests has secure access to timber resources for up to ten years under the Sustainable Forests (Timber) Act 2004. Accordingly, contracts for timber sales can be entered into for a maximum of ten years. The industry

has identified this as a major constraint to new investment in timber processing which consequently leaves little room for exploring new business development opportunities, or opportunities for existing customers to undertake major investments to drive processing efficiency and further rationalisation.

The second issue is that timber availability is subject to significant changes in the way that timber is harvested and delivered, and the quality of timber. As a consequence of fires, changes in land tenure and increased reservation, the average productivity of commercial forests in eastern Victoria is lower than it has been historically and is also further from market. This is a significant challenge for VicForests to address through its new business model, which is focussed on improved planning and logistics processes and on generating operational efficiencies.

Finally, there is ongoing pressure on resource availability in relation to the management of non-timber forest values, specifically water policy, biodiversity management and climate change.



Governance and institutional arrangements for sustainable forest management

Regulation of forest management

Commercial management of Victoria's State forests is undertaken within a comprehensive regulatory framework which is overseen by the Minister for the Environment. VicForests' primary regulator is the Department of Sustainability and Environment. The Department is currently undertaking a review of the regulatory framework within which VicForests operates in order to remove ambiguity about regulatory responsibility and create a more efficient regulatory system.

While VicForests has demonstrated clear improvements in regulatory performance since it began operations, it is also experiencing a greater level of regulatory scrutiny of its operations. A more clearly defined regulatory regime will be critical to VicForests' ability to continue to demonstrate performance improvement.

The issue of tenure

Under the Sustainable Forests (Timber) Act 2004, VicForests has access to timber resources with up to 10 years of commercial certainty, which is consequently the longest tenure that VicForests can offer to the market in the form of timber supply contracts. Existing customers and a number of potential new customers have provided a clear indication to VicForests that this is an insufficient time period to allow for any significant investment in new processing facilities or to upgrade existing facilities. This is a clear business risk, as it means that VicForests is reliant on the existing customer base which is likely to invest only in essential capital maintenance for processing facilities.

In order to generate new industry investment and encourage existing customers to upgrade to more efficient processing facilities, VicForests must be in a position to offer supply contracts which are commensurate with the investment risk appetite of our customers.

Climate change

The Federal Government is currently considering the framework for a national emissions trading scheme (NETS) which is intended to create a consistently applied market framework to generate reductions in greenhouse gas emissions. The Australian forest industries are attempting to develop a consolidated position about the role of forests in the NETS which will be used to inform the Federal Government about the issues.

There are many opportunities presented by a NETS. However, the risk for native forest growers of incurring financial liability under such a scheme is not yet fully understood.

Of specific issue for VicForests is the way in which forest management might be covered by a NETS. Currently there are no rules developed to deal with the scale of a forest management enterprise, the way in which carbon emissions from fire will be dealt with and whether full coverage of forestry is dealt with at the regional, state or national scale. There is also very little detailed understanding of the dynamics of carbon flow in native forest systems, or of the measuring, monitoring and reporting requirements that would be included in a NETS.

VicForests has undertaken preliminary work to assess carbon flows in its estate. This work indicates that the Victorian commercial forest estate is relatively neutral with respect to balance between carbon emissions and sequestration. However, the assumptions used are broad and the knowledge gaps still large.

STRATEGIC DRIVERS

Certification

Two certification schemes exist for forest management in Australia. VicForests was certified to the Australian Forestry Standard (AFS) in 2007. The organisation is now targetting certification to the alternative Forest Stewardship Council (FSC) scheme during the 2008/09 financial year.

Successful FSC certification would deliver against VicForests' 2004 commitment to pursue certification to both schemes. Most importantly, it will also meet the needs of our largest customers for both pulpwood (Australian Paper) and sawlog (ITC Limited) to support their marketing efforts in international and domestic markets.

VicForests' certification to FSC would make it the first significant native forest grower and first state government forestry agency to do so. This is expected to provide VicForests and its customers with a significant first mover advantage in the marketplace.

Extracting value from the supply chain

A new Business Development function has been created within VicForests, which is focussed on developing strategies to grow revenue and capture new investment and processing opportunities for native forest timber resources.

Business development is seen as a key strategic direction over the next business planning cycle. The success of this function is partly dependent on the extent to which longer tenure can be generated for resource availability to VicForests. Both existing and potential new customers have indicated that secure tenure for longer than 10 years is necessary for them to consider any substantial investment.

VicForests is also now in a position to consider non-timber business development opportunities. Policy developments related to climate change and environmental management present potential opportunities in environmental services markets. VicForests' developing expertise in logistics, timber resource analysis and timber sales also present potential opportunities.

Building on the success of VicForests' systems and processes

Business systems

The business systems which VicForests uses for its operations have evolved significantly from those inherited from the Department of Sustainability and Environment at start-up. New business systems are starting to mature and add value to the business. A key challenge now is to focus on greater integration of systems to reduce reliance on manual data management and transfer, and to identify ways in which systems can be further developed to generate greater operational efficiency.

Costs of harvesting

The 2006/07 fires, new reserves in East Gippsland in 2006 and historic over-harvesting in some forest management areas have all resulted in a reduction in the average productivity of the commercial forest estate. The Joint Sustainable Harvest Levels project has confirmed this fact, and has identified that up to 20% of the resource available to VicForests is in forests, stands and coupes that would traditionally have been considered more difficult and expensive to harvest.

VicForests is presented with a significant challenge to continue to generate operational efficiencies in order



to mitigate upward production cost pressures while maintaining a high level of environmental, safety and operational performance.

It is essential that the organisation uses its now clearly articulated business model and processes to better understand its costs of planning and production and to plan and schedule operations in a manner that delivers optimal efficiency.

Process improvement

The clear articulation of business processes, and the subsequent alignment of organisational structure with these, presents the organisation with a framework for identifying those processes which add the most value to the business and those which are or will become redundant.



Skills, safety and stakeholders

Forest industry skills shortage

Australian forest industries are experiencing a well documented skills shortage across all sectors. VicForests has experienced this in the context of both attracting and retaining professional staff, as well as maintaining contract harvest and haul capacity.

Safety

VicForests has made measurable progress in safety management performance through the implementation of its safety management system, and targeted work with staff and harvest and haul contractors. However, the skills shortage referred to above has resulted in a high level of turnover among staff and contractors. The consequent loss of experience presents a challenge in terms of maintaining safety performance and ensuring that systems and training are adequate for this task.

Stakeholder engagement

The success of VicForests' reforms so far is due in part to its successful 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 generate influence on issues that affect the organisation's business performance.

STRATEGIC DIRECTIONS



Overview

VicForests' strategic directions for the 2008/09 to 2010/11 planning cycle reflect the new phase of stabilisation and maintenance of the new business model and organisational structure, now that the organisation has completed its major reform agenda and addressed the consequences of the 2006/07 Great Divide fires.

Accordingly, VicForests has reviewed its forward strategy to address this new set of challenges.

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.

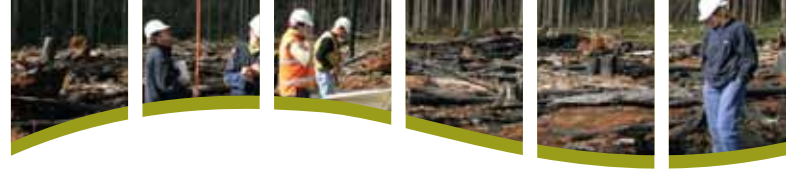
Key strategies

Generate value from the entire supply chain

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

- Realise the market potential of existing business development opportunities
- Explore new business opportunities for currently unutilised timber resources
- Improve business processes and their application to generate greater value from existing resources
- Generate greater value from VicForests' business systems
- Ensure continuous improvement in VicForests' compliance with external regulatory requirements
- Improve staff and contractor safety performance and systems

Initiatives

- Undertake an assessment of VicForests' unutilised residual resource to underpin business development opportunities
- Undertake detailed assessment and feasibility study for potential OSL investment
- Undertake feasibility of supply for biomass energy production with potential customers
- Investigate process management models for application to VicForests
- Assess and benchmark the costs of forest management planning and regulation to VicForests
- Enhance VicForests' staff and contractor safety programs through a suite of targeted initiatives

- Targetted relationship building around strategic issues and initiatives
- Develop and implement a leadership capability development framework

Build effective stakeholder networks and coalitions to address key issues affecting the business

Objectives

- Improve VicForests' relationships with key stakeholders groups, including staff, customers, contractors and representative groups
- Establish effective partnerships with key stakeholders to enable collaboration on issues affecting VicForests' business performance

Initiatives

- Targetted relationship building around strategic issues and initiatives

Become the employer of choice in Australian forest management

Objectives

- Develop the leading forest management employer brand in Australia to improve staff attraction and retention

Initiatives

- Develop an employer branding strategy
- Develop and implement a leadership capability development framework

STRATEGIC DIRECTIONS

Project timeline

VicForests' Strategic Directions													
Strategy	Goals	Timelines											
		2008/09				2009/10				2010/11			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Generate value from the entire supply chain	1. Undertake an assessment of VicForests' unutilised residual resource to underpin business development opportunities												
	2. Undertake detailed assessment and feasibility study for potential OSL investment												
	3. Undertake feasibility of supply for biomass energy production with potential customers												
	4. Investigate process management models for application to VicForests												
	5. Assess and benchmark the costs of forest management planning and regulation to VicForests												
	6. Implement phase 2 of LogTracker												
	7. Enhance VicForests' staff and contractor safety programs through a suite of targeted initiatives												
Build effective stakeholder networks and coalitions to address key issues affecting the business	1. Targetted relationship building around strategic issues and initiatives												
Become the employer of choice in Australian forest management	1. Develop an employer branding strategy												
	2. Develop and implement a leadership capability development framework												

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2008/09 – 2010/11



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