EXAMINATION OF LOG HARVESTING AND HAULAGE ARRANGEMENTS IN THE VICTORIAN HARDWOOD SECTOR

APRIL 2002

State Government Victoria
Department of Natural Resources and Environment

ISBN 0 7311 5176 3

For further information please contact :
NRE Customer Service Centre
Phone 136 186
Email: customer.service@nre.vic.gov.au

Find more information about NRE on the internet at www.nre.vic.gov.au

Foreword

In February 2001, the Department of Natural Resources and Environment commissioned independent consultants, the Forestry Consulting Group to conduct an examination of log harvesting and haulage arrangements in the Victorian native hardwood sector.

The harvest and haulage sector of the timber industry is economically significant for many regional communities. In March 2000, the Minister for Environment and Conservation, the Hon. Sherryl Garbutt, made a commitment to "review harvesting arrangements in State forests with particular reference to the viability and security of contractors and bush crews".

The purpose of the review is to examine current arrangements for the harvesting and haulage of hardwood sawlogs, residual logs and pulpwood from State forests in Victoria. Additionally, the review is to provide recommendations that will support viable and secure contractor and crew rates and improved conditions in the native forest harvesting and haulage sector at the same time as ensuring, competitive, efficient, consistent and safe operations across the State.

This Report provides a number of short and medium term recommendations aimed at improving the efficiency of the industry as well as the rates and viability of the contractors. The recommendations of this report are independent of the views of the Government and are yet to be fully considered by the Government.

Recently the Government has made significant announcements in relation to the timber industry and future management arrangements as outlined in *Our Forests Our Future* statement, available on the NRE website at www.nre.vic.gov.au. In this policy, the Government has reiterated its commitment to restructuring the harvest and haulage sector and to ensure that contracting arrangements are fair and equitable and the sector adopts best practice workplace and environmental management systems.

This report, including the recommendations of the report, will be referred to the Industry Transition Taskforce for consideration and advice. This Taskforce has been recently established to advise Government on implementing the reforms set out in the *Our Forests, Our Future* statement.

Chloe Munro
Secretary

EXAMINATION OF LOG HARVESTING AND HAULAGE ARRANGEMENTS IN THE VICTORIAN HARDWOOD SECTOR

TABLE OF CONTENTS

LIST OF ANNEXURES

EXECUTIVE SUMMARY

The Native Forest Log Harvesting and Haulage Sector is an economically significant industry for many Victorian rural communities. It directly employs about 700 people in small businesses which for the most part are family owned many of which have been handed down from previous generations. It is estimated that a further 1000 are indirectly employed in industries servicing harvesting and haulage contractors and their families.

This sector is a crucial link in a wood supply chain that delivers timber to sawmills, pulp and paper mills and export woodchip processors. If this link is not competitive and sustainable these industries will not be competitive and economic activity and employment opportunities would decline, particularly in timber towns such as Orbost and Heyfield. Furthermore Australia's trade deficit in timber products would increase.

Competitive pressures have resulted in hardwood processing industries expecting harvesting and haulage contractors to increase productivity and to deliver lower costs. Although the harvesting and haulage contractors have generally accepted the need to improve productivity a number of factors, most of which are outside the contractors control, has limited their capacity to deliver reduced costs and at the same time remain financially viable.

Continued downward pressure on contract rates without addressing other issues that impact on productivity and costs has led to the current situation where many contractors are working excessive hours and investment needed for upgrading and maintaining equipment is not being undertaken. Unless changes are made the industry is unlikely to remain competitive.

All components of the supply chain need to work cooperatively to eliminate impediments to improved efficiency and to ensure that rates and conditions provide for the maintenance of an economically sustainable log harvesting and haulage sector that delivers logs to processors at an internationally competitive price.

The review has set out to identify practical solutions, which will not result in dislocation of the industry. The recommendations rely mainly on giving regional stakeholders the tools to work together to ensure that the industry is economically sustainable and continues to provide secure employment. Providing a more stable, secure and safer working environment for contractors is not expected to impose significant cost increases on the timber industry. On the contrary harvesting and haulage costs should continue to diminish in real terms.

EXAMINATION OF LOG HARVESTING AND HAULAGE ARRANGEMENTS IN THE VICTORIAN HARDWOOD SECTOR

1. INTRODUCTION

1.1 Background

Following the signing of Victoria's last two Regional Forest Agreements in March 2000, the Minister for Environment and Conservation, the Hon. Sherryl Garbutt, made a commitment to undertake a review of harvesting arrangements in State forests with particular reference to the viability and security of contractors and bush crews.

In accordance with this commitment the Department of Natural Resources and Environment (DNRE) commissioned a study to:

- examine current arrangements for the harvesting and haulage of hardwood sawlogs, residual logs and pulpwood from State forests in Victoria; and

- provide recommendations that will support viable and secure contractor and crew rates and improved conditions in the native forest harvesting and haulage sector at the same time as ensuring competitive, efficient, consistent and safe operations across the State.

A copy of the Terms of Reference of the study is attached (Annexure 1).

The report on the study will be submitted to the Minister for Environment and Conservation.

1.2 Approach

Over 2 million cubic metres of hardwood sawlogs, residual logs and pulp logs are harvested in Victoria's State forests each year and hauled to over 60 sawmills, one pulp and paper mill and 3 woodchip mills.

The harvesting (falling, snigging, log preparation, log grading and loading) and haulage of hardwood logs is generally carried out by contractors. Harvesting and haulage contractors include individuals, partnerships and small private companies with their own equipment who are paid specified rates per cubic metre or per tonne of logs harvested or delivered.

The typical contracting arrangements in the industry are:

- contractors engaged by individual sawmillers;

- contractors engaged by logging syndicates or a logging company owned and operated by sawmillers; and

- contractors engaged by a “principal contractor” who has a contract with DNRE.

There are about 140 contractors harvesting and hauling hardwood logs in Victoria comprising 45 harvesting, 45 harvesting and haulage and 50 haulage contractors. The contractors range from owner operators to small firms employing 20 to 30 persons. About 700 persons are directly employed in the hardwood harvesting and haulage sector.

Given the number of contractors, the variety of contracting arrangements and the diversity of operating conditions across the State, the study has focussed on identifying practical recommendations to improve the viability and safety of the harvesting and haulage sector through the following consultation processes:

- meeting with major stakeholders to outline the scope of study and encourage them to make and exchange written submissions;

- conducting meetings with stakeholders in Bairnsdale, Orbost, Colac, Daylesford, Marysville and Traralgon to outline the scope of the study and encourage them to make written or verbal submissions and to provide evidence to support assertions;

- studying actions being taken in Tasmania and elsewhere to address issues associated with log harvesting and working conditions;

- following up issues raised in the consultation process with various organisations including: DNRE, Workcover, East Gippsland Institute of TAFE, Victoria Police, Tasmanian Logging Association, Forestry Tasmania, Forest Industry Association of Tasmania and Tasmania’s Forest and Forest Industry Council.

The draft report was amended to take account of comments by the Steering Committee and circulated to major stakeholders for comment. A meeting was convened with the major stakeholders to outline the issues that had been raised and the recommendations of the draft report.

The final report reflects the comments received from major stakeholders.

The names of attendees at consultative meetings, persons/organisations consulted and persons/organisations providing written submissions are listed in Annexure 2.

Recommendations to support viable and secure contractor and crew rates and improved conditions have been designed to provide practical outcomes and to address issues raised in the consultation process. They have also taken account of the need to reduce uncertainty and to promote efficient, competitive and safe working conditions across the State.

1.3 Outline of Report

The report provides outcomes from an extensive consultation process with stakeholders and analysis of key issues. Chapter 2 provides an outline of the structure of the Victorian native hardwood timber industry while current arrangements for the harvesting and haulage of logs from State forests are described in Chapter 3.

The fundamental requirements for the development of an economically sustainable and stable log harvesting and haulage sector and the need for all sectors in the supply chain to work cooperatively to improve competitiveness and efficiency are outlined in Chapter 4.

Chapters 5 to 10 examine the key issues that are relevant to further development the of sustainable and competitive log harvesting and haulage sectors. Finally Chapter 11 sets out recommendations on actions required to ensure the development and maintenance of an effective, efficient, competitive and economically sustainable harvesting and haulage sector.

Any Government budget impacts that may arise from the recommendations would need to be considered as part of the overall budget strategy for Victoria and would need to link to overall reform of the sector to ensure maximum benefit on investment.

2 OVERVIEW OF THE VICTORIAN HARDWOOD INDUSTRY

Victoria's forest product industries have an annual turnover of $3,415 million and employ 17,300 persons (ABS 1998). The ABS data for the forest product industries does not include forest management, plantation establishment and management, logging and log haulage, transport and distribution of sawn timber and other manufactured products, furniture manufacturing or any indirect jobs in service industries. If all direct and indirect jobs were taken into account the total number of persons employed by Victoria's forest industries would approach 50,000.

Native forests produce about one third of the total volume of logs harvested in Victoria. Accordingly forest industries processing hardwood logs from native forests make a significant contribution to the Victorian economy and are crucial to the social and economic well being of many rural communities.

The following sections review the various sectors of the native forest hardwood industry.

2.1 Forest Management

State forest is thought to account for over 90% of the hardwood sawlogs and residual logs produced in Victoria. Little information is available in the production of timber from private native forests and the management of those forests.

The Department of Natural Resources and Environment is responsible for managing State forest in accordance with all relevant legislation and regulations and with the Regional Forest Agreements (RFAs) in the East Gippsland, Gippsland, Central Highlands, North East and West Regions.

The implementation of the Department's statutory obligations and the requirements of the RFAs is undertaken by the application of the Code of Forest Practices for Timber Production, Forest Management Plans, wood utilisation plans, coupe plans and timber harvesting and forest operator licensing provisions.

The Code's purpose is to ensure that commercial timber growing and harvesting activities are carried out in such a way that an internationally competitive timber industry is promoted while being compatible with the conservation of a wide range of environmental values, and promoting ecologically sustainable forest management (ESFM). To this end, the Code provides Statewide goals, guidelines and minimum standards to be applied to timber production operations and provides a basis for formulating more detailed plans and prescriptions in the form of Forest Management Plans, Forest Management Area prescriptions, wood utilisation plans, and coupe plans.

Forest Management Plans and Forest Management Area prescriptions are prepared for each Forest Management Area (FMA). The Forest Management Plans divide the State forest into zones that identify where environmental cultural and timber resource values are to be given priority.

Wood Utilisation Plans provide a rolling three-year schedule of coupes or harvesting areas in each FMA that are planned to be harvested to supply the required quantities of logs to meet wood supply commitments. Wood Utilisation Plans also detail the associated access roading required to access the coupes to be harvested. They are prepared annually.

Forest Coupe Plans are prepared for each coupe to be harvested. These plans identify the areas to be harvested, the location of roads and landings and conditions to apply to all operations.

2.2 Log Production

Victoria's native forests produce sawlogs, residual logs, pulpwood and a range of other timber products including fence posts, poles, sleepers and firewood. The volume of forest products harvested from State forest in 1999/2000 was 2.33 million m^3 and is thought to represent over 90% of the total volume of forest products harvested from native forests in the State.

The volume of sawlogs, residual logs and pulpwood harvested from State forest in 1999/2000 is detailed in Table 2.1

Table 2.1 Volume of Logs Harvested from State Forest in 1999/2000

Product	Volume (m^3 gross)		
	Ash species	Mixed species	Total
Sawlogs	439,939.46	484,484.14	924,423.60
Residual logs			
For sawing	101,531.02	43,887.76	145,418.78
For chips	287,834.29	527,692.02	815,526.31
Pulpwood	355,401.48	88,123.97	443,525.45
Total	1,184,706.25	1,144,187.89	2,328,894.14

Source: DNRE

Compared with 1998/99 total log production increased by about 11% from 2,091,489 to 2,328,894 m^3 gross. The increased volume harvested in 1999/2000 is due to higher sales of residual logs for export woodchips.

Although sawlog production is expected to decline in 2000/01 in line with the decline in home building, sales of residual logs and pulpwood are expected to remain buoyant reflecting strong demand for Australian produced communication papers and improved competitiveness of Australian hardwood woodchip exports. Total log production for 2000/01 is expected to be about 2.4 million m^3 gross.

2.3 Logging and Log Haulage

Logging and log haulage is generally carried out by contractors. Rates of payment are based on the quantity of logs produced or transported.

A logging contractor may operate one or more logging crews. A typical logging crew comprises of 3 to 4 persons who are responsible for:

- construction of in-coupe roads and log landings;
- felling and heading the trees to be harvested;
- shifting the tree lengths from the stump to a landing;
- removal of bark;
- merchandising the tree lengths into various products and grades of product;
- grading the sawlogs;
- loading the logs for delivery to specified processing plants; and
- undertaking rehabilitation works specified in the Forest Coupe Plan.

Generally two log trucks are required to service each logging crew. Although some logging contractors own and operate their own trucks most log haulage is undertaken either by owner-drivers or small fleet (2 to 3 trucks) operators.

Further information on log harvesting and haulage arrangements is detailed in Chapter 3.

2.4 Log Processing Industries

2.4.1 Hardwood Sawmilling

The Victorian hardwood sawmilling industry is very diverse. Over 60 sawmills process sawlogs and residual logs from Victorian State forests. They are generally owned and operated by small to medium sized family companies but

vary in size, species and grade of logs processed and types of products produced.

Logs from native forests are used to produce a wide range of products including natural feature grade and select timber for furniture and joinery, strip flooring, parquetry, panelling, kiln dried beams and other structural timbers, unseasoned structural timbers, pallet timber, fencing timbers and garden stakes.

Most sawmills processing more than 6,000 m^3 of sawlogs per annum have installed kiln drying facilities and produce either seasoned timber or a mixture of seasoned and unseasoned timber. Economies of scale are a critical factor for sawmills investing in further processing to increase the recovery of higher value products or actively marketing their products in Australia and overseas. Promising export markets have been developed in Japan, China and the United States by some of the larger companies.

The demand for sawn timber and sawlogs is closely linked to the level of activity in the housing industry. Compared with 1999/2000 sales of sawn timber declined sharply in 2000/01. Recent reductions in interest rates are expected to benefit the housing industry and the demand for sawn timber is expected to improve in 2001/02.

A number of sawmills reduced their sawlog requirements for 2000/01 as a result of the lower demand for sawn timber and some have announced further significant reductions as recently as March 2001. Late decisions to reduce sawlog requirements limits DNRE's capacity to select coupes for harvesting that balance the requirements of all customers and can reduce the harvested volume of both sawlogs and residual logs. This can have a significant impact on the net income of both logging and haulage contractors.

2.4.2 Pulp and Paper Manufacturing

Australian Paper, a wholly owned subsidiary of PaperlinX Limited, operates an integrated pulp and paper manufacturing plant at Maryvale in Victoria. The plant which employs about 950 persons, uses about 1.5 million tonnes of logs and sawmill residue from native forests and plantations per annum to produce wood pulp and also uses recycled fibre and imported pulp to manufacture a range of printing and packaging papers.

The plant's two kraft pulp mills produce eucalypt and softwood pulp respectively and a small neutral sulphite semi-chemical mill produces pulp from mixed species eucalypts. About 60% of the wood fibre used for manufacturing kraft eucalypt pulp is sourced from State forest.

The kraft softwood pulp and the semi-chemical pulp are used primarily for manufacturing packaging papers. The kraft eucalypt pulp is used for

manufacturing high quality, high value added, printing or communication paper. This paper is marketed throughout Australia and exported principally to New Zealand.

2.4.3 Hardwood Woodchip Exporting

Australia's exports of hardwood woodchips rose by 26% to 3.6 million bone dry tonnes in 1999-2000 (ABARE 2000). Exports to Japan rose to 3.1 million tonnes while exports of lower valued woodchips to Indonesia, Korea and Taiwan accounted for the remaining 0.5 million tonnes.

About 800,000 m^3 of residual logs harvested in Victorian State forests in 1999-2000 were processed into woodchips and exported by Harris Daishowa (Aust) Pty Ltd from Eden and by Midway Pty Ltd, Austimber Exports Pty Ltd and Fibre Exports Pty Ltd from Geelong.

The prospects for further expansion of sales of hardwood woodchips from native forests in the short to medium term are good. Compared with other major exporters such as the United States and Chile, Australia is a low cost supplier of hardwood woodchips and Australian exporters have benefited from the falling value of $AUD. Australia is therefore in a good position to increase its share of the Japanese market and to expand exports of lower valued woodchips to other Asian markets.

The average unit price of woodchip exports to Japan has declined in recent years and the outlook is for prices to continue to decline (Connell, Gilmour and Penm, 1997). Any decline is expected to narrow price differential between woodchips exported to Japan and other Asian markets. This differential is currently about $20 -$25 per bone dry tonne.

In the longer term exports of hardwood woodchips from Victorian native forests are expected to face intense competition from woodchips sourced from the rapidly expanding area of hardwood plantations.

3. CURRENT HARVESTING AND HAULAGE ARRANGEMENTS

A large number of harvesting, harvesting and haulage and haulage contractors are engaged in logging State forest in Victoria. The contracting arrangements generally vary between FMAs and are outlined below.

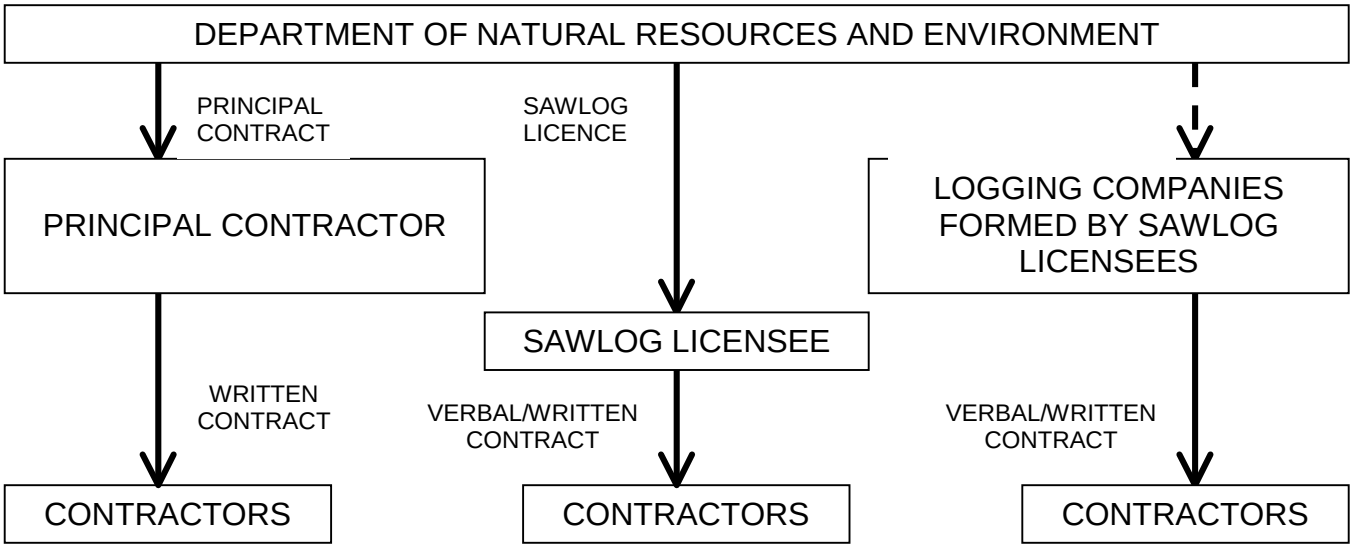
Prior to the implementation of the Timber Industry Strategy in 1986 most sawlog licensees had individual, designated areas of sawlog supply and either undertook their own logging operations or engaged contractors to produce their licensed sawlog entitlements. The Timber Industry Strategy replaced the traditional areas of supply, sub-divided the State into 15 Forest Management Areas (FMAs) and licenced sawmillers and other log processors to take specified quantities and kinds of logs from each FMA.

Sawlog licensees in the larger FMAs were encouraged to form logging syndicates to organise the harvesting and supply of logs to all licensees within each FMA. Where sawlog licensees were either unwilling or unable to form logging syndicates DNRE invited tenders to carry out the harvesting and delivery of log timber from the FMA.

These changes initiated by the Timber Industry strategy are reflected in the current contracting arrangements. The three typical structures are:

- contractors engaged by individual sawmillers;
- contractors engaged by a logging syndicates or a logging company owned and operated by sawmillers; and
- contractors engaged by a logging company with a contract from DNRE.

These structures are illustrated in the following diagram.



There is considerable variation in contract rates for harvesting timber. For example production rates for sawlogs range from $15.25 to around $24 per m^3 and from around $17 to $25 per m^3 for residual logs. Rates for residual logs are consistently from $1 to $4 per m^3 higher than sawlogs. This contrasts with the situation in Tasmania where the minimum rates for residual or woodchip logs are about $2 per m^3 lower than those in Victoria and the rates for sawlogs are $2 m^3 per higher than those for residual logs.

The extent to which current contracting arrangements contribute to the variation in log harvesting rates is unclear as variables such as species, log yield per hectare, slope, length of logging season, logging equipment and quota size can all contribute to the variability of rates.

The current contracting arrangements in each FMA are as follows.

3.1 East Gippsland FMA

East Gippsland Logging Pty Ltd (EGL) is responsible for all harvesting and haulage operations other than thinning, in the East Gippsland FMA under the terms of a contract with the Secretary to the Department of Natural Resources and Environment. The contract was awarded, following a public tender process, for an initial period 3.5 years from 1 January 1998 to 30 June 2001. In accordance with the terms of the contract its duration has been extended until 30 June 2002.

East Gippsland Logging Pty Ltd is a private company.

The contract, inter alia, requires EGL to harvest and deliver log timber allocated under long term licences to sawlog and residual log processors in 1997/98 at the rates submitted in the tender. The long term licensed volumes were then 570,000 m^3 per annum.

The contract also nominated EGL as the preferred supplier for log timber supplied to existing and new short term licensees and additional long term licensees and authorised EGL to negotiate harvesting and delivery rates specific to such licences.

The actual and planned volumes of logs produced and delivered by EGL in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs	Total
1999-2000	322,000	180,000	502,000
2000-2001	287,000	312,000	595,000

Source: EGL

Although the demand for sawlogs decreased in 2000-01 in line with the decline in house building this was more than compensated by increased demand for residual logs due to the expansion of existing markets and the development of new markets.

Although there is potential to further increase the production of residual logs, the volume of sawlogs may be reduced following the current review of resource information and sawlog licence levels.

To harvest the logs allocated to DNRE's customers in 2000-01, EGL engaged 26 harvesting contractors who operate a total of 29 crews to harvest (i.e. fall, snig, de-bark, merchandise, grade and load) sawlogs and residual logs. The harvesting contractors are typically small enterprises operating 3 - 4 man crews comprising the contractor and 2 or 3 employees or sub contractors. While most harvesting contractors are single crew operations 2 contractors operate 2 and 3 crews respectively. The average volume of logs harvested by each crew is 17,500 to 20,000 m^3 per annum.

A typical 3 man logging crew is equipped with a bulldozer (Cat D6 or D7 or equivalent) and an excavator while a 4 man crew is also equipped with a skidder or second bulldozer. Of the 29 crews only 3 have mechanical felling equipment.

To deliver the logs harvested in 2000-01, EGL has engaged 32 cartage contractors (including 14 who are also harvesting contractors) who operate a total of 58 trucks. Generally two trucks are allocated to each logging crew. Most trucks are either bogey/triaxle or bogey/bogey configurations although there are also 5 B doubles and one Quad Dog.

The harvesting and cartage contractors were initially granted contracts by EGL that reflected the duration and terms of the principal contract.

EGL is responsible for the supervision of harvesting and cartage contractors engaged by it and is responsible for ensuring that all operations conducted in the performance of the contract are carried out in accordance with the "Code of Forest Practices for Timber Production", Timber Harvesting and Fire Protection Regulations, Coupe Plans and prescriptions. At the completion of a Coupe, EGL or its agent is required to sign the "Coupe Completion Certificate" to verify that the Coupe has been completed in accordance with the requirements of the contract. EGL has a staff of 8 including 6 Forest Supervisors to ensure it provides the services required by the contract.

A new logging syndicate has been recently formed in the East Gippsland FMA largely as a result of dissatisfaction with the cost of EGL's services. The new syndicate has engaged a number of logging and cartage contractors who formerly worked for EGL and is expected to harvest about one third of the total volume of sawlogs and residual logs produced in the East Gippsland FMA in 2001-02.

It is too early to assess the impact of the emergence of the new syndicate on conditions in the harvesting and haulage sector. However it could result in inequities in the volume of residual logs available for harvesting in individual coupes and adversely affect the viability of contractors harvesting coupes with limited residual log quotas and low sawlog yields.

In the longer term it is unlikely that two competing organisations will achieve the necessary economies of scale and the focus required to effectively implement the changes recommended in this report.

3.2 Tambo FMA

Tambo Logging Company Pty Ltd (Tambo Logging) is responsible for all harvesting and haulage operations in the Tambo FMA under the terms of a contract with the Secretary to the Department of Natural Resources and Environment. The contract awarded, following a public tender process, was for an initial period of 3 years from 1 November 1994 to 30 June 1997. In accordance with the terms of the contract it has been periodically renewed and is now due to expire on 30 June 2002. Tambo Logging also log in 11 blocks of the Wodonga FMA. The principal customer for sawlogs from these blocks is Neville Smith Timber Industries Pty Ltd.

Tambo Logging Company Pty Ltd is a private company and is part of the Neville Smith Timber Industries group.

The contract requires Tambo Logging to harvest and deliver log timber allocated by long term licences to sawlog and residual log processors in 1994/95 at the rates submitted in the tender. The long term licensed volumes were then 74,060 m^3 per annum.

The actual and estimated volumes of logs produced and delivered by Tambo Logging in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3 *		
	Sawlogs	Residual logs	Total
1999-2000	87,103	81,008	168,111
2000-2001	74,000	137,000	208,000

Source: Tambo Logging Company Pty Ltd
* includes logs from the Wodonga FMA

Although the demand for sawlogs decreased in 2000-01 in line with the decline in the rate of house building this was more than compensated by increased demand for residual logs.

Sawlog production was reduced by 14,000 m^3 per annum as a result of the Gippsland RFA. Further reductions may follow the current review of resource information and sawlog licence levels.

To harvest the logs allocated to DNRE's customers, Tambo Logging has 8 harvesting contractors who operate a total of 12 harvesting crews that fall, snig, de-bark, merchandise, grade and load logs. The harvesting contractors are typically small enterprises operating 3-4 man crews comprising the contractor and 2 or 3 employees or sub contractors. While most harvesting contractors are single crew operations 2 contractors operate 2 and 4 crews respectively. The average volume of logs harvested by each crew is about 17,000 m^3 per annum.

A typical 3 man logging crew is equipped with a bulldozer (Cat D6 or D7 or equivalent) and an excavator while a 4 man crew is also equipped with a skidder or second bulldozer. Of the 12 crews none have mechanical felling equipment.

To deliver the harvested logs Tambo Logging has engaged 13 cartage contractors (including 7 who are also harvesting contractors) who operate a total of 26 trucks. Generally two trucks are allocated to each logging crew. Most trucks are bogey/triaxle configurations although there are also 4 B Doubles, 2 Mini B Doubles and 6 Quad Dogs. Compared with other FMAs log haulage distances are longer in the Tambo/part Wodonga FMA.

Tambo Logging is responsible for the supervision of its harvesting and cartage contractors. However Tambo Logging's contract with DNRE does not make it responsible for ensuring that all operations conducted in the performance of the contract are carried out in accordance with the "Code of Forest Practices for Timber Production", Timber Harvesting and Fire Protection Regulations, Coupe Plans and prescriptions.

Tambo Logging has 3 employees.

3.3 Central Gippsland FMA

Syndicated Central Gippsland Logging Pty Ltd (SCGL) is responsible for coordinating the harvesting and delivery of logs in the Central Gippsland FMA. It was established in 1989 and is owned and operated as a non-profit company by sawmillers with long term licences to take sawlogs from the Central Gippsland FMA. SGL does not have a separate licence, contract or agreement with DNRE.

Australian Paper (AP) who purchase substantial volumes of pulpwood or residual logs under the terms of a long term agreement with the Secretary to the Department of Natural Resources and Environment have chosen not to join SCGL and have their own contracts with harvesting contractors. In practice SCGL and AP work closely together and undertake joint annual reviews of each contractor's performance and future work. The other residual log buyers (Aus Timber, Dormit and Midway) are supplied by SCGL.

The actual and planned volumes of logs produced and delivered by SCGL and AP in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs*	Total
1999-2000	189,036	420,980	610,016
2000-2001	161,000	435,000	596,000

Source: SCGL
* includes pulpwood

The demand for sawlogs decreased in 2000-01 in line with the decline in house building. This decrease was partially compensated by increased demand for residual logs.

To harvest the logs allocated to DNRE's customers, SCGL has engaged 19 harvesting contractors who operate a total of 26 crews to harvest (i.e. fall, snig, de-bark, merchandise, grade and load). The harvesting contractors are typically small enterprises operating 3-4 man crews comprising the contractor and 2 or 3 employees or sub contractors. Currently 15 of the 19 harvesting contractors are single crew operations, has 2 crews and 3 have 3 crews. The average volume of logs harvested by each crew is about 23,000 m^3 per annum.

A typical logging crew is equipped with a bulldozer (Cat D6 or D7 or equivalent), a skidder and an excavator. Eight of the 26 crews operate mechanical felling equipment.

The logging contractors are responsible for delivering the harvested logs to nominated customers using either their own trucks or cartage contractors. Generally two trucks are allocated to each logging crew.

About 50 trucks are used on a more or less continuous basis throughout the logging season with some additional trucks being used on a casual basis. Apart from 2 Quad Dogs all the trucks used are bogey/triaxle configurations. This reflects the relatively short distances between most of the forest coupes and the processing plants and the lack of suitable roads for larger trucks.

Syndicated Central Gippsland Logging has 4 employees.

3.4 Dandenong FMA

Upper Yarra Logging Syndicate (UYL) is responsible for managing the harvesting and delivery of logs in the Dandenong FMA. UYL does not have a separate licence, contract or agreement with DNRE.

Australian Paper (AP) who purchase substantial volumes of pulpwood or residual logs from the Dandenong FMA under the terms of a long term agreement with the Secretary to the Department of Natural Resources and Environment have their own contracts with harvesting contractors. In practice there is close cooperation between UYL and AP.

The actual and planned volumes of logs produced and delivered by UYL and AP in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs*	Total
1999-2000	40,000	128,000	168,000
2000-2001	40,000	125,000	165,000

Source: Upper Yarra Logging Syndicate
* includes pulpwood

To harvest the logs allocated to DNRE's customers, UYL has 6 harvesting contractors who operate a total of 6 crews to harvest (i.e. fall, snig, de-bark, merchandise, grade and load) sawlogs and residual logs. The harvesting contractors are typically small enterprises operating 4 man bush crews comprising the contractor and 3 employees or sub contractors. Five of the 6 crews operate mechanical felling equipment. The average volume of logs harvested by each crew is about 27,500 m^3 per annum. The total number of persons engaged in harvesting is 24.

A total of 16 trucks are used to deliver the harvested logs. Four of the harvesting contractors own and operate 8 trucks with the remaining 8 owned and operated by cartage contractors. All trucks are jinker or skel configurations as cartage distances are relatively short. The total number of persons including casuals engaged in log haulage is 16.

3.5 Central FMA and Benalla Mansfield FMA (ash only)

GCH Harvesting Pty Ltd (GCH) is responsible for managing the harvesting and delivery of logs in the Central and Benalla Mansfield (ash only) FMAs. The company was established following a decision to amalgamate Gould Harveting Pty Ltd and Central Highlands Harvesting Pty Ltd who had been managing the harvesting sawlogs on behalf of long term sawlog licensees in separate parts of the Central FMA. GCH does not have a separate licence, contract or agreement with DNRE.

The actual and planned volumes of logs produced and delivered by GCH in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs	Total
1999-2000	143,000	336,300	479,300
2000-2001	127,000	340,300	467,300

Source: GCH

The demand for sawlogs decreased in 2000-01 in line with the decline in house building and this was partially offset by an increased demand for residual logs. The total volume of logs produced is expected to remain at current levels over the next 3 years.

To harvest the logs allocated to DNRE's customers, GCH has 11 harvesting contractors who operate a total of 14 crews to harvest (i.e. fall, snig, de-bark, merchandise, grade and load) sawlogs and residual logs. The harvesting contractors are typically small enterprises operating 3-4 man crews comprising the contractor and 2 or 3 employees or sub contractors. Three of the 14 crews operate mechanical felling equipment. The average volume of logs harvested by each crew is about 33,000 m^3 per annum. The total number of persons engaged in harvesting is 64.

The harvesting contractors and GCH are currently negotiating written contracts.

To deliver the harvested logs GCH has engaged 20 cartage contractors (including 3 who are also harvesting contractors) who operate a total of 28 trucks. Most trucks are jinker or skel configurations although there are also 4 Mini B Doubles and 2 Quad Dogs. GCH also engages additional cartage contractors on a casual basis to handle high production levels. The total number of persons including casuals engaged in log haulage is 52.

GCH employs 4 persons.

3.6 Midlands FMA

Central Victorian Forestry Company Pty Ltd (CVFC) is responsible for coordinating the harvesting and delivery of logs in the Midlands FMA. It was established in 1990 and is owned and operated as a non-profit company by sawmillers with long term licences to take sawlogs from the Midlands FMA. CVFC does not have a separate licence, contract or agreement with DNRE.

The actual and planned volumes of logs produced and delivered by CVFC in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs	Total
1999-2000	58,893	84,850	143,743
2000-2001	37,500	56,283	93,783

Source: CVFC

The decreased sawlog and residual log production in 2000-01 reflects the closure of a sawmill due to a reduction in the sustainable sawlog yield following the signing of the West Victoria Regional Forest Agreement. Further reductions in log production are expected over the next 1-2 years

To harvest the logs allocated to DNRE's customers, CVFL has 4 harvesting and 2 haulage contractors who operate up to 6 crews to harvest (i.e. fall, snig, de-bark, merchandise, grade and load). The contractors are typically small enterprises employing from 1 to 8 persons. The total number of jobs is 29.

A typical logging crew is equipped with a skidder and an excavator. None of the crews operate mechanical felling equipment. The average volume of logs harvested by each crew is about 18-20,000 m^3 per annum.

As a result of reductions to sustainable sawlog yields associated with the Regional Forest Agreement for the West RFA and possible reductions following a further review currently in progress, the total volume of sawlogs and residual logs produced in the Midlands FMA could decline to about 50,000 m^3 per year. A reduction of this magnitude will require a comparable reduction in the number of contractors and will adversely impact on the viability of CVFC.

3.7 Otway and Portland FMA's

South West Forest Harvesting Pty Ltd (formerly Otway Logging Pty Ltd) is responsible for all harvesting and haulage operations in the Otway and Portland FMAs under the terms of a contract with the Secretary to the Department of Natural Resources and Environment. The contract was awarded, following a public tender process, for a period of 3 years from 1 July 2000 to 30 June 2002.

In accordance with the terms of the contract it may be renewed for further 3 years.

South West Forest Harvesting Pty Ltd (S W Harvesting) is a private company.

The contract requires S W Harvesting to harvest and deliver log timber allocated by long term licences to sawlog and residual log processors in 2000/01 at the rates submitted in the tender.

The actual and planned volumes of logs produced and delivered in 1999-2000 and 2000-01 respectively are as follows:

Financial Year	Volume of Logs Produced and Delivered m^3		
	Sawlogs	Residual logs	Total
1999-2000*	39,000	68,000	107,000
2000-2001*	20,000	55,000	75,000

Source: South West Harvesting Pty Ltd
* Otway FMA only

The decreased sawlog and residual log production in 2000-01 reflects:

- the closure of one of the three sawmills in the Otways due to a reduction in the sustainable sawlog yield following the signing of the West Victoria Regional Forest Agreement;
- the decline in house building after 30 June 2000; and
- disruption of logging by forest protest activity in April 2001.

To harvest the logs allocated to DNRE's Otway FMA customers, SW Logging had 7 harvesting contractors operating 7 crews in 1999-2000 and 6 harvesting contractors operating 6 crews in 2000-01. The harvesting contractors are typically small enterprises operating 3-4 man crews comprising the contractor and 2 or 3 employees or sub contractors. The average volume of logs harvested by each crew is 12,500 to 15,000 m^3 per annum.

A typical 3 man logging crew is equipped with a bulldozer (Cat D6 or D7 or equivalent) and an excavator. None of the crews have mechanical felling equipment as the volume of logs harvested, the steep terrain and the short logging season make investment in such equipment uneconomic.

To deliver the harvested logs SW Logging has 10 cartage contractors (including 1 who is also a harvesting contractor) who operate a total of 18 trucks. Most trucks are bogey/triaxle configurations and relatively old (i.e. 10+ years)

The harvesting and cartage contractors operate on a verbal agreement with the principal contractor. It is intended to provide written contacts in accordance with the requirements of the principal contract.

3.8 Other FMAs

The volume of sawlogs and residual logs harvested in the remaining FMAs is relatively small.

Forest Management Area	Volume of Logs Harvested m^3 1999-2000		
	Sawlogs	Residual Logs	Total
Wodonga	50,338.50	6,053.28	56,391.78*
Wangaratta	-	-	-
Part Benalla/Mansfield	7,783.08	656.17	8,439.25
Bendigo	509.34	522.67	1,032.01
Mid Murray	7,499.30	855.64	8,354.94
Horsham	1080.66	-	1080.66
Mildura	1,063.68	-	1,063.68

Source DNRE
* includes logs harvested by Tambo Logging

Generally sawlog licensees in these FMAs are responsible for harvesting the sawlog volumes specified in their licences and, where markets are available, any associated residual logs. The harvesting operations are either carried out by contractors or by employees using equipment provided by the sawlog licensee.

The relatively small scale of these operations influences the equipment that is used and limits the introduction of alternative harvesting and haulage arrangements.

4 ENSURING AN ECONOMICALLY SUSTAINABLE AND COMPETITIVE HARVESTING AND HAULAGE SECTOR

The harvesting and haulage of logs is a component of a supply chain that extends from the forest owner, who produces and sells the logs, through one or more stages of processing, to the purchasers of the products produced. All the components in the supply chain are interdependent and the efficiency and productivity of the various components directly affects the competitiveness of the products produced.

Australia has one of the most open economies in the world and hardwood timber processing industries operate in a competitive environment facing competition from other domestic producers and importers of both timber and non-timber products. Accordingly to maintain or expand existing markets and to develop new markets in the current environment Australia's hardwood producers need to be efficient and internationally competitive.

The Victorian Government through the Department of Natural Resources and Environment (DNRE) supplies over 90% of the total volume of native forest hardwood logs produced in Victoria. Most of these logs are harvested and delivered to DNRE's customers by harvesting and haulage contractors.

By initiating this study the Government has responded to concerns about the viability and security of contractors and bush crews. These concerns are not restricted to logging in native forests or to Victoria. The following extract from a recent editorial in a national trade magazine (Limb, 2001) illustrates concerns about the future of the industry's logging and cartage contractors.

"There has been growing concern about the plight of the industry's logging contractors - that they are leaving the industry at an alarming rate and that there won't be sufficient skilled and experienced contractors left when the industry improves.

The strength of any relationship is put to the test when times are hard.

Right now, the forest industry is failing the test with relations between the different sectors at an all time low.

Contractors are leaving the industry at an alarming rate, forest owners/managers are under pressure to supply logs at the lowest possible price, finance and insurance brokers have lost confidence in the industry and equipment suppliers are struggling to make sales.

When the going gets tough, it's tempting to point the finger and blame someone else, but it doesn't solve the problems.

Each sector of the industry needs to look at the difficulties facing all industry sectors and work together as a whole to resolve them.

Open and honest discussions are needed so that everyone understands the issues that they each face.

Compassion too is required and a willingness to share expertise with whoever can benefit from it. The forest industry is more than just the sum its parts - for without one of those parts there is no industry."

The difficulties being faced by logging and cartage contractors reflect the competitive environment in which the timber industry operates and the need to reduce costs and improve productivity to offset rising costs and maintain profit margins. It also reflects the position of logging and cartage contractors in the supply chain and the lack of a culture of cooperation between the different sectors of the industry.

The competitive pressures being faced by timber industry and in particular the logging and cartage sector are diagrammatically illustrated below.

PRICES LIMITED BY DOMESTIC AND INTERNATIONAL COMPETITION

LOG PROCESSING COSTS & PROFIT MARGIN

HARVESTING AND CARTAGE RATES

LOG PRICES

Prices obtained for woodchips, sawn timber and other timber products are determined by international or national market forces and are outside the control of individual processors. Like those for most other commodities, prices for woodchips and sawn timber are trending downwards in real terms.

Notwithstanding this trend log producers are generally seeking increases in log prices to offset increasing costs and in native forests harvesting costs are also being increased by measures designed to protect other forest values. Where state governments are the only significant producers of sawlogs and residual logs they are in a strong position to achieve log price increases.

Processors are therefore operating in an environment where they need to reduce costs if they are to maintain profit margins and remain viable. Depending on the extent of processing undertaken, logging and log cartage costs represent a varying proportion of total costs, ranging from about 50% for woodchips, 25% for unseasoned timber, 15% for seasoned timber and less than 15% for kraft pulp. Reducing logging and log cartage costs has been part of the overall cost reduction strategy of most log processors.

Although logging and cartage contractors provide the crucial link between the log producer and the log processor, they are in effect the "meat in the sandwich" between decreasing commodity prices and increasing log prices. Logging and cartage contractors are generally price takers and accept the conditions and rates imposed by others. The net result is that they have been required to accept lower rates and absorb higher costs and this situation is reflected in the current state of the industry.

All sectors of the Victorian timber industry need to adopt new, more capital intensive technologies and safer, more efficient work practices to meet competition from expanding hardwood plantation resources, continued targeting of structural timber markets by softwood, timber imports and alternative non-timber products.

A competitive and efficient harvesting and haulage sector is crucial to DNRE's marketing of available log resources and to obtaining favourable log prices.

DNRE is responsible for managing native forests for a range of values and environmental obligations and has established a comprehensive framework for forest management and timber production. This includes the application of the Forests Act 1958 and associated regulations, together with the Code of Forest Practices for Timber Production. This regulatory approach sometimes results in limited attention being given to modifying work practices and procedures that can increase the efficiency and competitiveness of timber harvesting and haulage. Within the framework of sustainably managing native forests for multiple values the DNRE and its employees need to become better engaged and more committed to working with industry to achieve productivity improvements and to maintain and improve competitiveness.

Victoria's hardwood processing industries have traditionally had responsibility for harvesting and haulage operations and generally take the view that they need to retain this responsibility to ensure:

- reliable and timely log supplies;
- logs prepared and graded in accordance with supply specifications; and

- competitive log input costs.

Competitive pressures have resulted in the hardwood processing industries expecting harvesting and haulage contractors to deliver higher productivity and lower costs. Although the harvesting and haulage contractors have generally accepted the need to improve productivity and reduce costs, a number of factors have limited their capacity to deliver reduced costs and at the same time remain profitable and viable.

All components of the supply chain need to work systematically and cooperatively to identify and eliminate impediments to improved efficiency. In particular, DNRE and log processors need to embrace more inclusive and transparent processes and work with harvesting and haulage contractors to eliminate impediments to improved productivity.

There is a need to accept joint responsibility for improved strategic planning, greater self-regulation and the development of a culture of continuous improvement. There is also a need to give greater recognition to:

- the importance of maintaining a skilled stable and viable harvesting and haulage sector;

- the rate at which change can be reasonably implemented when large capital investment is required in new equipment;

- the financial and other risks associated with harvesting and haulage operations; and

- the development of fair and more objective methods for determining contract rates.

The current study has revealed that if improvements are to be made to the industry then it will require commitment from the various sectors of the industry, to work together in a cooperative and practical way to improve efficiency and competitiveness. As the Victorian Association of Forest Industries advised the Minister that they were unwilling to participate in this study, achieving increased cooperation between the various sectors will be a major challenge.

The following chapters (chapters 5 to 10 inclusive) review the issues that need to be addressed if the Victorian hardwood timber industry is to have an economically viable and sustainable harvesting and haulage sector.

5 LOGGING ARRANGEMENTS

5.1 Responsibility for Logging

Arrangements for the harvesting and delivery of logs to processing industries are usually the responsibility of either the forest owner or the log processor(s) both of whom have a financial stake in ensuring efficient and competitive harvesting and log haulage operations. During this review no examples of harvesting and haulage contractors being responsible for arranging the harvesting and delivery of logs were identified. However, in 1997 contractors in East Gippsland formed a company to tender to harvest and deliver logs in the East Gippsland FMA.

For the forest owner, control of the harvesting and delivery of logs provides the opportunity to obtain increased revenue from log sales through improved utilisation of the available timber resources and improved log merchandising. Large private forestry companies and government business enterprises such as Forestry Tasmania, have shown a preference for direct control forest harvesting operations and the delivery of logs to processors.

For wood processors control of logging operations can reduce input costs and provide the means of ensuring a reliable supply of logs. The hardwood timber industry in Victoria has traditionally organised the harvesting and delivery of logs from State forest.

With the exception of pulpwood supplied pursuant to the Forests (Wood Pulp Agreement) Act 1996 the Secretary to the Department of Natural Resources and Environment may determine the arrangements for the supply of timber in accordance with the provisions of the Forest Act 1958. Medium to long term log licences issued pursuant to the Forests Act entitle the licensee to take logs from State forest and for the Secretary to determine whether timber to be taken by the licensee shall be from trees felled by the licensee or from timber produced by the Secretary or others. In relation to timber produced by the Secretary or others, the licensee shall pay the reasonable cost of felling and/or removal of such timber as well as reasonable administrative or overhead expenses.

A variety of harvesting arrangements are used in Victorian hardwood forests and these are outlined in Chapter 3. During the consultation process widespread dissatisfaction was observed amongst the contractor workforce and some licensees with current harvesting arrangements in some FMAs.

Most of the current concerns stem from either:

- an apparent reluctance to genuinely consult with contractors and others before making decisions affecting their businesses;

- the exclusion of some licensees and other stakeholders from syndicate ownership; and

- the decision to engage “principal contractors” in some FMAs and the perception that they are profit centres that increase the cost of logs.

While these perceptions and criticisms may be unfounded in some cases they will remain while some stakeholders are excluded from decision-making. The fact that the arrangements apparently work in some FMAs and not in others, shows that efficient operations are too dependent on the good will of individuals.

Despite the dissatisfaction with some of the current arrangements there was no clear consensus on alternative arrangements except that any arrangements for the harvesting and haulage of logs should be able to take account of differences between FMAs.

As stated earlier, arrangements for the harvesting and delivery of logs to processing industries are usually the responsibility of either the forest owner or the log processor(s). Given the widespread dissatisfaction with current arrangements a decision needs to be made whether to initiate a major change that would result in the forest owner/manager taking full responsibility for the harvesting and delivery of logs or to make changes to the current arrangements that address identified shortcomings.

The consultants believe that as DNRE is required to manage timber production in the context of multiple use forests there will be significant constraints placed on the conduct of the industry. There is a strong perception in the industry that environmental objectives are being favoured over the commercial objectives, to the detriment of the industry. At the same time, it is apparent that the Forestry Victoria business does not have the corporate structure or commercial focus to manage the 140 logging and haulage contractors operating in State forest and to efficiently provide “mill gate” deliveries to all its sawlog and residual log customers. Furthermore the implementation of "mill gate" delivery arrangements would have major cost implications for the Government.

As a monopoly supplier of the resource DNRE has a lessened incentive to supply in the most efficient and timely manner. The establishment of Forestry Victoria as a separate business entity within DNRE has gone some way to ensuring a more commercially efficient focus to timber production. However, the fact that Forestry Victoria does not retain revenue derived from royalties and other charges means that it is unable to be as responsive to changes in the economic environment.

It is also relevant that most of the resources for effectively managing harvesting and haulage operations at an FMA level have already been put in place by the logging syndicates and principal contractors and modification of current

arrangements would be less disruptive than DNRE assuming full responsibility for harvesting and haulage arrangements.

To address the concerns that have been identified, improved arrangements for the coordination of the harvesting and delivery of large volumes of logs where there are multiple customers will ensure that structures are:

- inclusive and not restricted to any particular service providers or processors;

- transparent to the extent that costs associated with the coordination of harvesting and haulage are identified;

- committed to:

    - improving productivity and safety through the introduction of new technology and training; and

    - sharing productivity gains among all sectors.

To fulfil these requirements, it is recommended that syndicates, whose membership is open to all stakeholders including unions, should be responsible for the harvesting and haulage of logs in FMAs/regions. Negotiations will be required regarding orderly transitional arrangements. However professional staff and infrastructure of existing syndicates should continue to be utilised wherever possible.

Submissions in reply to the Draft Report raise conflict of interest issues as the principal objection to this recommendation. It is the consultants view that these issues can be satisfied by the normal practice of board members absenting themselves from discussions and votes on matters where they have a direct financial interest.

Further, the submissions received indicated that the current arrangements themselves are not without conflict. They are run by licensees whose financial interests clearly conflict with those of the contractors yet agents of the licensees often conduct negotiations on behalf of the contractors. Also, decisions which affect the management of the contractors business are often made by the business which represents the licensees.

These conflicts could be resolved by removing the licensees from management of harvesting and haulage and having these functions performed by DNRE or a contractor owned company. Pressure for this latter model already exists. Since these alternatives are not desirable for reasons stated earlier, the consultants have opted for recommending inclusive structures.

Syndicated Central Gippsland Logging Pty Ltd and Central Victorian Forestry Company Pty Ltd have demonstrated that syndicates or co-operatives can operate effectively. There is a need to achieve a broader representation of the industry and to extend the scope of operations of logging syndicates.

In FMAs where the volume of logs being harvested is relatively small and there are few customers the existing log licensees are responsible for coordinating log harvesting and haulage. Provided these arrangements deliver viable rates and security for contractors they should continue.

5.2 The Role of "Logging Syndicates"

The consultants see a need for change throughout the industry and even if the issues outlined in section 5.1 were not present we would be still advocating the adoption of more inclusive syndicate structures. In this report we identify a need for greater leadership, innovation in OHS, business training, operator training, contractor accreditation, chain of supply management, roading planning and provision, machinery utilisation and truck fleet management. We are of the view that these and other improvements proposed in this report cannot be fully achieved and built on without more inclusive structures and methods.

Currently members of "logging syndicates" hold sawlog licences that specify entitlements and obligations with respect to the harvesting of sawlogs. However syndicate companies, such as Syndicated Central Gippsland Logging Pty Ltd do not hold a licence, contract or similar authority from the Secretary to DNRE that authorises the harvesting of logs and specifies their obligations with respect to environmental care, log grading, fire protection or other contracts.

In contrast the "principal contractors" operating in East Gippsland, Tambo and Otway/Portland FMAs have entered into detailed contracts with the Secretary that specify rights, obligations, actions and sanctions in relation to the harvesting and delivery of log timber. Since the first contract was signed in 1994 they have been re-drafted and have become increasingly concerned with regulating the actions of the principal "contractor" and risk minimisation.

To address the current anomalies the following changes are recommended:

- all "logging syndicates" providing harvesting and haulage services from State forest should have a formal relationship (i.e contract, licence, etc) with the Secretary;

- the licence or contract should set out specific requirements including:

    - the services to be provided;

- the provision of written contracts with all contractors that are fair insofar as both risk and productivity gains are shared;

- procedures for the determination and review of contract rates; and

- effective procedures for the resolution of disputes;

The licence or contract conditions should also:

- acknowledge DNRE role as a supplier of logs with a vested interest in improving the productivity and competitiveness of log harvesting and haulage;

- require the licensee/contractor to undertake a more active role in improving OH&S and training;

- promote increased emphasis on quality assurance and self regulation.

Finally all licences/contracts should be for a finite term of 5 years. Subject to meeting key performance indicators specified in the licence/contract they may be renegotiated for a further term of 5 years after 3 years.

6 THE INTER-RELATIONSHIP BETWEEN VOLUME CONTRACTS AND RATES

In presenting the picture that harvesting and haulage contractors are currently operating in an extremely difficult and at times tenuous economic climate, it is acknowledged that harvesting and haulage is only one component of a much larger supply chain.

As such, there are market forces influencing the industry as a whole, which then directly impacts on the contractors. When such market forces do exert pressure on the industry, there is often little that any one sector of the industry, or the government, can do to alleviate such pressures.

Thus for example changes in the demand for timber servicing the domestic housing market, or fluctuations in the export price of woodchip derived from Residual Wood, effect the industry as whole, and contractors are a part of this whole.

However it is also accurate to say that supply arrangements from State forests have an important role to play with regard to the effectiveness and viability of harvesting and haulage operations.

The ability of individual contractors to run and manage their own businesses and to benefit from new technologies is to a large extent reliant on mechanisms that are presently mostly out of their control. These include the level of volume and quota of wood they can obtain together with the rates they receive and whether or not they are able to secure a contract of any real worth.

By way of introduction, it is prudent to recall that over the past decade, there have been enormous changes to the way in which contractors have been able to negotiate the rates they are paid for their harvesting and haulage services. There have also been significant changes in contractual obligations.

Prior to the industry restructuring by departmental logging or syndicate management, individual contractors invariably worked for individual sawmillers. This had a disadvantage on a macro level in that wood flows across the state were delivered in a haphazard manner. Moreover, individual contractors were left without work if a sawmill closed down, and were often paid late and sometimes not at all. As we know, the number of sawmilling enterprises in Victoria has decreased from approximately 600 some 50 years ago, to about 60 today. On the other hand, working for the individual sawmiller enabled the contractor to have a genuine one on one negotiating process. He generally had a good knowledge of the sawmiller's operations and the working relationship tended to be strong and on going. Under such circumstances, most contractors generally did not enjoy secure or long-term contracts, however the business

climate was a friendlier one, and handshake agreements saw overall contractor stability.

The highly competitive tendering system, that has developed in many FMA's over the past decade, has inevitably led to marked erosion of rates. There is a simple reason for this: as most contractors are required to finance their machinery, such equipment costing in the many hundreds of thousands of dollars, contractors have been prepared to tender unprofitable rates simply in order to retain their work flow. They know that if they do not retain their work – at virtually any price – that they will be unable to repay their loans.

Aside from this erosion of rates, there are a number of by-products of this process.

With the move towards centralised management of FMAs, individual contractors now face difficulty in trying to negotiate fair and reasonable rates and secure minimal contracts under circumstances in which they are a small individual contractor against a powerful syndicate or principal contractor. This appears to be a situation that intimidates many contractors.

Furthermore, the contractor invariably lives with the threat that his quota will be tendered elsewhere. This effectively reduces negotiation to the lowest common financial economic denominator. It can be argued that the tender process is much more concerned with bottom line cost than it is with sustainability. In this environment, contractors have seen their rates continually eroded with almost no possibility of improvement as balance of power is stacked against them.

It is prudent at this point to give an illustration of the economic crisis facing contractors. A private study conducted for the logging contractors in the Central Highlands revealed the following results for the financial year ended 30 June 1999.

Of eleven contracting businesses, a sample of seven businesses showed that only one made a small profit, with a consolidated loss across the group of nearly $370,000. Gross income of the group was nearly $3.25 million, but expenses totaled in excess of $3.6 million. Investment in necessary equipment totaled more than $5 million.

Nor is this an isolated case. Contractors across the State provided submissions including their business and personal tax returns that reflected either substantial losses or, at best, a small profit.

Ironically, it was those contractors who had resisted buying new machinery or trucks – in effect, those who were prepared to invest the least in their future – who earned reasonable incomes as their equipment had been paid off.

It is hardly surprising that in view of such inequity, many contractors across the State have recently become members of the CFMEU and have arranged themselves into associations in order to present a common and unified voice.

6.1 Quotas/Volume

It has been demonstrated that there is an important nexus between volume and harvesting and haulage efficiencies.

It is outside the ambit of this report to discuss the history concerning the Regional Forest Agreement (RFA) process. Nonetheless, whilst the RFA process did provide some resource security, the primary beneficiaries of the Timber Industry Strategy, initiated in the late 1980's, were the major sawmillers in the state, who did receive long term (usually 15 year) contracts. The harvesting and haulage contractor force, on the other hand, was offered no such security.

Furthermore, the endless conjecture regarding the ongoing degree of sustainability of wood has meant that harvesting and haulage contractors have, in many cases, been unable to invest in new technology for fear that their very livelihoods would be removed due to reductions in resource. This is an external force that clearly lies beyond the control of contractors to correct.

6.2 Capital Intensive Equipment

The forest industry is capital intensive. A standard hand felling harvesting operation will typically require equipment including an excavator, skidder and bulldozer at a minimum cost of approximately $690,000. A mechanical harvester with a falling head will cost $450,000 on top of that. A conventional tri-axle or jinker skel truck will cost in the vicinity of $350,000 and the larger configurations such as B Doubles will cost a further $100,000.

The fixed costs associated with repayment on standard equipment generally represents about 30% of an operation's total annual expenditure. This figure can climb considerably when more specialised or advanced equipment is required.
This ratio is appreciably higher than most industries. Furthermore, due to the relatively short life of harvesting and haulage equipment, the requirement to re-invest is ever present

Accordingly, the State Government should recognise the crucial role that security of volume has on the industry.

All equipment is used in terrain that is particularly harsh on the equipment. In the case of prime movers and truck and trailer configurations, it is essential that equipment be renewed each 4 to 5 years. Beyond this date, repairs and maintenance expenses become enormous and excessive down time serves to render efficient operations virtually impossible.

Similarly in the harvesting sector, despite the fact that the equipment can generally be used for more years, equipment needs to be turned over about every 7 years.

In some FMAs in which rates are particularly low, equipment and haulage fleets are bordering on the decrepit with no turnover and average equipment older than 10 years of age.

Sufficient and stable volumes – relative to an appropriately sized contractor force - provide the environment that allows for contractors to purchase new technology and gives them the confidence to invest. **Investment in new technology is critical to the future of the industry and one of the principal factors leading to improved efficiencies.**

Once volumes are stabilised they can be embedded into the core agreements to be covered by long-term contracts between the contractors and the logging syndicates. Once contractors have the relative security of on-going volumes and long-term contracts, competitive rates can be achieved via improved technological efficiencies.

6.3 Contracts

Many of the stark inequalities facing contractors in the harvesting and haulage sector of the forestry industry have already been raised by a number of authoritative consulting and legislative groups who have had far wider terms of reference than this consultancy. Many of these are referenced in the independent report of the Victorian Industrial Relations Taskforce which was submitted to government in August 2000. That report includes a full chapter (chapter 9) dealing with contractors in this state. The Industrial Relations Taskforce states:

> *"…there is also a view that somewhere between genuine employees and genuine independent contractors, that a third category of contractors is starting to emerge. This category is defined as those workers who are self-employed but at the same time are dependent on the one organisation to whom they provide their services. They are basically dependent on a regular employer for work, much like an employee is dependent on an employer for a wage."*
>
> The Taskforce goes on to say that:
>
> *"… in recent times various State Industrial law have sought to extend the statutory coverage to apply to what is determined as dependent contractors, (our italics) or those contractors who are low waged and*

dependent on their contract and who would normally be an employee except for that contract."

Under the current arrangements in Victoria there is little doubt that most harvesting and haulage contractors would fall under the category or description of those outlined in the Taskforce's report. Indeed one of the recommendations found at the end of that chapter specify owner-drivers in the transport and forestry industries.

6.4 Proposed Fair Contract Legislation

One of the recommendations of the Taskforce, is the issue of fair contract legislation. Although some provisions in the Trade Practices Act deal with the issue, Tasmania's State Government is presently considering fair contract legislation specifically for contractors in the native hardwood industry. The proposed legislation is seen as providing a remedy for contractors who may be directly or indirectly disadvantaged in employment contracts because they take the form of an independent contract rather than a contract of employment.

The Taskforce identified that the most critical aspects of fair contract legislation generally revolve around:-

- the relative strength of the bargaining positions of the parties of the contract.

- whether any undue influence or pressure was exerted on or any unfair tactics were used against a party of the contract.

- ensuring the contractual terms are not set at the whim of a contracting employer, and

- that there is a reasonable economic basis in the contract to afford a reasonable remuneration and rate of return on investment to the dependent contractor.

It is asserted by contractors that over the past decade, contractors have been progressively disadvantaged in contractual arrangements for log harvesting and haulage, being expected to do more work and carry more and more indirect costs without any compensation.

6.5 Contract Requirements

In light of the above it is the consultant's view that principal contractors/syndicate managers be obliged to enter into fair and reasonable contracts which incorporate the following items:-

- Reasonable Contract Tenure
- Recognition of Fundamental Contractor Input Costs
- Performance Measurement
- Level of Investment
- Volume
- Assignment
- Rate Setting Mechanism with Appropriate Indexation

Each of these will be discussed in turn.

6.5.1 Reasonable Contract Duration

There is widespread recognition from all sectors of industry that contracts are required. The general view is that without medium term contracts of 5 years, the requisite investment into new equipment is not possible. This is because average commercial leasing arrangements extend over this range. The short term arrangements currently in place across a large part of Victoria's wood harvesting industry makes it difficult for a contractor to raise loans for equipment purchased at other than significantly higher than market rates. Finance companies factor in the tenure and security of a contractor's contract when they evaluate their own rate setting.

Moreover, even with highly efficient operations and seemingly good relations with the principal contractor, a sub-contractor can find himself suddenly permanently without work and unable to service the loan attached to his businesses enterprise and his equipment, which may become largely redundant.

Throughout the state principal contractors and Syndicate Management companies have all set out in their submissions the desirability of medium term contracts of five years.

East Gippsland Logging Pty Ltd state in their submission:

> *"There is almost uniform agreement within the industry that contracts should be for at least 5 years to allow contractors to invest in the increasingly expensive technology with some security."*
>
> *"Unless contracts are for long periods, the industry will find it increasingly difficult to borrow money."*

GCH Harvesting advises in their submission that some of the key areas that need to be addressed by contracts are:-

> *"Tenure, which needs to reflect the level of investment individual investors have made. Those with harvesting equipment warrant a*

> *longer tenure (5 years) whereas those with conventional equipment warrant a reduced tenure. The same applies to truck configurations….."*
>
> *"Contracts will give contractors security to invest and those on short-term contracts the opportunity through effective business planning the opportunity to extend the term of their contract."*
>
> *"Reducing the level of financial risk the contractor is exposed to."*

Tambo Logging Company Pty Ltd state that the key components to contracts are:-

> *"Term – Minimum of 5 years with the option of negotiating an extension. It is important for contractors to get long term finance for replacement equipment."*

A somewhat dissenting submission was received from Australian Paper Plantations Pty Ltd who argued that contracts should be a standard one year, with extensions negotiated on the basis of investment and managerial ability.

The consultants do believe that there should be a link between level of investment and contract duration. This is dealt with in more detail on page 43.

It almost goes without saying that submissions received by the contractor groups uniformly see medium term contracts as a pre-requisite for security and efficiencies.

Translating such industry awareness into workable solutions, however, has proved limited in the extreme. Although there is widespread agreement between sawmilling and contractor groups as to the criteria that constitutes a fair and reasonable contract, only limited progress has been made.

A case in point is in Central Highlands where GCH Pty Ltd and the Central Highlands Timber Harvesting Association (the Harvesting Contractors Group) have been unable to agree on a suitable contract despite negotiations extending over 12 months.

It is the consultant's recommendation that syndicates should be obliged to offer contracts, generally of 5 years duration, bearing in mind the type of equipment and volume. This one change in itself will enable contractors to make appropriate business plans and have some confidence and security in their businesses in future. At the very least, there is no reason why contractors cannot have a mirror contract to the one enjoyed by the principal contractor. To this end, it is desirable that the State Government enters into medium term contracts with the syndicates as recommended earlier in this document in section 5.2.

6.5.2 Input Cost Components

The basis of fair contracts for contractors is the principle that contractors are enabled to earn a reasonable rate of remuneration and return on their investment. In recognition of this, contracts should allow for a rate setting mechanism that incorporates all the main input costs of a contractor's business. Such a schedule now currently exists in all standard contracts between Forestry Tasmania and harvesting and haulage contractors. That schedule forms an appendix to this report.

A cost component indicator schedule allows for a proper appreciation of the input costs that the contractor will face in the performance of his work and runs at the very core of equity in contractual arrangements. It is our recommendation that such a schedule will be a permanent fixture of the contracts in this state as well. The cost components that need to be included are:-

- Wages
- Workers' Compensation
- Superannuation
- Fuel
- Tyres/Tracks
- Repairs & Maintenance
- Depreciation
- Interest
- Insurance
- Administration
- O.H. & S.

6.5.3 Performance Measurement

Contracts also need to allow provision of mechanisms to measure and reward contracted performance in relation to:-

- Environmental outcomes
- Quality of delivery
- OH&S standards
- Volumes to be logged or carted each year.

Clearly, contracts ought to include incentive provisions to encourage above average outcomes.

6.5.4 Level of Investment

Ideally contracts should take into consideration the level of investment that individual contractors make. In line with the proposal for 5-year licences to

operate syndicates, the contracts for both harvesting and haulage contractors should ideally have a 5-year duration with the option to renegotiate for a further 5 years after the first 3 years.

There is an argument to support the view that the security afforded the contractor should only be made available when the contractor himself is committed to a process of re-investment. As has been argued previously, investment in new technology is the catalyst for efficiencies.

The industry will best be served by encouraging contractors to invest in such technologies. Conversely, where a contractor is not prepared to invest, contracts of shorter duration may be appropriate.

6.5.5 Volume

The importance of volume has already been discussed at length. Suffice to say that contracts must provide for volume allocated. With volumes variable from year to year, there does need to be some flexibility with contracted volume quotas. Nonetheless, it is volume that drives the economic performance of the contractor. Any contract that does not specify correctly volume amounts will seriously jeopardise the contracting workforce and their businesses.

6.5.6 Assignment of Contract

The other key ingredient in the contracts must be provision for contractors to assign all or part of their contracts if they so desire. It is the consultant's view that the industry will need to progressively restructure and this should be facilitated through market forces. Fairness and equity dictate that provision should be made for contractors wishing exit from the industry particularly, considering the capital-intensive requirements of harvesting and haulage operations.

Naturally incoming operators must demonstrate the same abilities, managerial performance and OH&S commitment as the original contractor, however as a governing principle, agreement to the assignment of all or part of contracts should not be unreasonably withheld.

6.5.7 Rates and Rate Setting Mechanisms

In addition to the critical issue of the provision of secure contracts and security of resource, the other crucial ingredient enabling contractor viability is the process of rate setting and rate negotiation.

Like contracts, there is a great deal of general understanding in the industry of the importance of effective rate setting.

The Victorian Association of Forest Industries recently set out its view on rates and rate negotiations. They have advised that they support the principle of contractors being given a fair hearing and negotiations of the logging and cartage rates and that the objective should be a fair and equitable return for all of concerned. Clearly this has to be achieved having regard to market reality and the imperative of achieving greater efficiencies within the industry.

For many if not most of the contractors throughout the State, there has been virtually no rate setting mechanism. It is widely felt amongst the contracting force that rates have been thrust upon the contractors with no method or model for their calculation. Examination of the rate setting mechanisms throughout the various FMAs reveals a gloomy picture of bottom line oriented, one-sided negotiation on rates.

At first glance it is somewhat ironic that the variation in rates paid across the state reflects inversely with prima facie efficiency.

It would be fair to say that in the rain-soaked Otways, where production is restricted on average to 100 days a year, and the machinery used is amongst the most antiquated in the State, rates are higher than elsewhere.

This inversion demonstrates two significant principles. First, that the market does have a loose way of factoring difficult or onerous external impediments into rate calculation. Second, and perhaps more importantly, that where efficiencies can be improved – specifically in relation to days worked and volume obtained – rates can be maintained and, theoretically at least, even decreased.

Whilst rates are the most obvious, and hence pressing issue facing contractor viability, inefficient and poorly worked management structures, instability of volume and unnecessary coupe closures can be of equal importance.

In this context, it is not surprising, but still noteworthy to report, that average rates paid in Tasmania are on average $1.50 to $2 lower than in Victoria. In the main, this can be attributed to the higher number of production and working days enjoyed there, which average 225 per annum. In Victoria, by contrast, most of the State averages between 140 to 180 days.

A number of submissions on behalf of sawmilling interests contended that there was no room for rate models in negotiations. The arguments used revolve around the fact that because no two harvesting or haulage businesses were the same - that each had different aged machinery, different volumes and different work forces and worked in different physical environmental - that rate setting had to be a very individual process.

The consultants are of the view that arguments over what constitutes appropriate and appropriately priced input requirements could be resolved as part of the negotiation process.

In addition, the historical reality is that many contractors throughout the state have been paid, over the past decade or so, average or flat rates irrespective of the specifics of their business. Harvesting and haulage contractors in both Central Highlands and East Gippsland have been paid the same standard schedule rates for work performed.

6.6 Models

There are sound economic arguments why standardised or average rates should not be paid across the board. On the other hand there is no doubt that without a reasonable base rate contractors will continue to struggle under the enormous constraints of the tender process which predominantly favour bottom line quotes on a short term basis. As mentioned earlier, these tend to be unconcerned with issues of sustainability.

There are a wide variety of costing and rate setting models that have been devised and are in use. Two firms in Tasmania; Garrot & Garrot Accountants, and Sealy Mazengaub Finance Brokers - the former Launceston and the latter Hobart based – have developed rate setting models for contractors to understand the costs of their business. Indeed Forestry Tasmania routinely uses the costing model of Sealy Mazengaub as a way of benchmarking the viability of a contractor's tendered price.

Moreover, Forestry Tasmania have included the more significant input costs into their contracts so that annual reviews must take into account changes in the benchmark costings.

The East Gippsland Loggers and Carters Association (EGLCA) have devised a detailed costing model (which has never been applied by the principal contractor). The Central Highland Timber Harvesting Association have also proposed a simpler rate model which can be adapted to each contractors' individual business. Stephen Bloch, one of the members of this consultancy, was recently engaged privately to create and provide business training on rate models for the industry.

All of the models referred to above are not only freely available, but essentially provide the same basic output – calculation of input costs divided by volume.

6.6.1 Negotiation Versus Tender

Whilst the consultants acknowledge that models should not be seen as the 'be all and end all' of a negotiated rate, we are nevertheless strongly of the view that

they are a required starting point. Indeed it is difficult to understand how appropriate rate setting can be negotiated without both parties agreeing on the very basic input components and their cost as part of the rate setting agenda.

A paper written some two years ago by Mark Sealy, from Sealy Mazengaub Finance Brokers in Tasmania, has detailed the devastating consequences to contractor viability during the 1990's as a result of the shift towards tendered prices.

The capital intensive nature of the industry effectively means that with hundreds of thousands of dollars of debt, contractors will often quote unprofitably low prices when contracts are up for review, just to secure the work.

Perhaps because syndicates/principal contractors have not been made to incorporate rate setting models in negotiations, examples abound of contractors in both harvesting and haulage who quote one year for work, but are simply unable to continue in subsequent years due to the lack of remuneration.

Alternatively, the poor rates are reflected in unsafe work practices, wherein native hardwood logging contractors or drivers are forced to work excessive and even illegal hours; and make business decisions that compromise elementary health and safety processes. This point is discussed in section 5.6 of this report.

It is our recommendation that contracts must provide for the professional costing of work as adopted by one of the available rate models, or any other model accepted by both parties. It is our belief that once a suitable model is agreed to by both parties, a large component of the seeming inequalities in the negotiation process will be removed. Certainly we would expect to see much of the tension of those negotiations dissipate.

In both verbal and written submissions licensees overwhelmingly wished to see individual rates negotiated for individual contractors. It is our view that such a process can be endorsed only when the principal contractor is willing to accept an agreed upon rate setting model.

Each rate model should include the principal costs associated with the business as described earlier. The models should include rates that will provide for effective changeover of equipment and a reasonable return for capital employed. These costs are not difficult to calculate.

Once the basic rate model is established, they can then be tailored to more accurately reflect the difficulty or ease of the work involved. For harvesting contractors, these should include variations for slope, rock and density of coupe (yield).

Alternatively, it may be possible that both parties can have their primary objectives met by introducing in each FMA a number of rates which take into account basic contracting types and configurations with sufficient variation to account for deviations from the base rate.

In the case of harvesting contractors, base rates can be set according to a general organisational structure. For example, a base rate can be set for a 3-man crew working steep slopes; for a 4-man crew, for a 5-man crew working a mechanical harvester etc.

Submissions-in-reply by some licensee representatives to this consultancy's draft report argued that whilst costing models were a good starting point for rate negotiations, they should not be seen as the principal mechanism to rate setting. The primary argument put forward was that it would be nearly impossible for both sides to agree on what the appropriate equipment and other input cost factors of any one contractor's business should be.

Clearly, where a contractor wishes to employ machinery or technology that the syndicate thinks is inappropriate or overly expensive, arguments will eventuate over what the base rate should be.

Yet without such mechanisms accommodated in the contract, the current deteriorating situation, which has already been identified, will continue.

On balance, it is our view that it is preferable for syndicates and contractors to have healthy debate over what constitutes appropriate input items, when the end prize is a rate that both sides have ultimately engineered. Surely this constitutes the very essence of compromise.

Without such rate modelling guaranteeing a mutually derived rate, contractors may still fall prey to simple negotiation where they are the weaker party. Even with considerable goodwill displayed by the syndicate or licensee representative, financial dictates will work against the small family contractor safeguards to the rate setting mechanism.

6.6.2 Indexation of Rates

It should be noted that a distinction needs to be drawn between rate setting as a mechanism in and of itself and the indexation of rates. As has been discussed earlier, the rates themselves need to be calculated based on the critical input costs of the contractors business.

It is equally important however, that the rates adjust on a regular basis to take into account changes in the prices of the regular cost of inputs. This is why Forestry Tasmania sought to include input costs into its standard contracts. By applying a weighting to each category of input costs, the rate can be changed to

reflect changing economic circumstances on a regular basis. Due to the vastly fluctuating price of fuel, and given that it is such a significant input cost in both harvesting and haulage operations, it is our view that an automatic rate adjustment for the price of fuel needs to take place when either:-

- the price increases or decreases by more than 10%; or
- every 3 months.

The other input costs associated with the rates should be adjusted on an annual basis.

As part of this discussion it is prudent to mention comments that were made to the consultants by export licensees regarding rate indexation. Their submissions suggested that movement in rates should be pegged to changes in the customers' ability to pay, which in turn will be determined by global and domestic timber market movements.

This "ability to pay" issue relates to:

- changes in the delivery cost of wood that wood processes must pay the Department;
- productivity gains that have been achieved in other sections of the business; and
- the export price of wood that export licensees can obtain

The thrust and relevancy of these arguments have been referred to as part of our introduction to the topic on the interdependency of volume, contracts and rates.

Whilst we do acknowledge that the health or otherwise of one sector of the timber industry will have a flow on effect to other sectors, it is difficult to see how a harvesting or haulage contractor can absorb a decrease in rates based on, say, a decrease in the export price of hardwood woodchips. The contractor's input costs and expenses simply do not vary in accordance with the export price.

Having said this, however, it would seem to the consultants that a small percentage of the rate indexation ought to relate at least to the export price of wood since the residual wood market is such a significant contributor to contract volume and hence efficiencies.

7 THE ROLE OF CONTRACTORS IN ENSURING A SUSTAINABLE AND COMPETITIVE HARVESTING AND HAULAGE SECTOR

Harvesting and haulage contractors have an important role to play in making the harvesting operations internationally competitive and efficient. Both verbal and written submissions from contractor organisations reflect that the contractors are well aware of the requirement to be efficient, innovative and lead in the cutting edge of technology.

In broad terms, technological efficiencies are to a large extent married to security of volume and contractor numbers.

Before efficiencies can be introduced however it behoves the industry to have an intelligent methodology, or business plan, to facilitate a process of evaluating viable contractor numbers. One of the advantages of the current FMA system is that the vast majority of contractors only work in one region in the state. This should facilitate a more reasoned and intelligent assessment of contractor requirements.

7.1 Evaluation of Contractor Force Numbers

There may well be a reduction in the number of FMA's in future depending on available volume. It is the consultant's opinion that each region must conduct a process whereby the licensees and the contractor force sit down to negotiate optimal contractor numbers.

Although this sounds like an impossible task, provided there is sufficient and reasonable accommodation for exit, this is bound to be a catalyst for great efficiency improvement. As one licensee put succinctly in their submission:

> *"Due to the nature of the work in the forest and the cost of labour it is inevitable that mechanised felling machines will take over the falling operations in hardwood forests. The problem is in marrying the structure of the existing contractor force to that of the structure necessary for mechanised harvesting".*

7.2 Contractor Consolidation

It has been cogently and effectively argued that for mechanical falling heads to be introduced, contractors need a minimum of 40,000 tonnes per annum to harvest. Presently throughout the state, however contractors mostly harvest much lower volumes. In many instances 15,000 to 20,000 tonnes only. Accordingly it is imperative that contractors are encouraged to consolidate or amalgamate their businesses so they can benefit from the economies of scale which will provide the necessary volume for the introduction of mechanical

harvesters. It is not only in the introduction of machinery however that larger volume parcels are required, but even with regard to OH&S programs.

By way of example: Let us assume a particular FMA harvests 300,000 tonnes annually. Rather than have, say, 15 contractors harvesting 20,000 tonnes each, it is our view that a consolidation of businesses should be encouraged to provide for example only 5 contractors retaining 20,000 tonnes – there will always be a requirement for smaller operations to log efficiently in steep or rocky terrain where mechanical falling heads are not able to be utilised – and a further 5 contractors harvesting an increased allocation of 40,000 tonnes each. Following consolidation the industry will be far better configured to cope with change. Consideration does need to be given however, however, on the appropriate method to support those exiting the industry.

From the majority of submissions received, it is apparent that contractors are aware that some rationalisation is inevitable but simply want to be participants in the process. This is not an unreasonable request and provides contractors with both a direct say in their future and dignity in their exits.

The same basic process can be undertaken on the haulage side of the industry. In any one FMA a transparent process of negotiation should be able to determine not only what the optimum number of trucks in the system are, but also the optimum truck configurations.

It is not economically desirable to acquire a B Double or a Quad Dog for example, even though they have higher pay loads than conventional tri-axle jinkers or skels, if they cannot be used on a 24-hour basis. The decision as to whether a larger configuration type can operate 24 hours is to a large extent dependent on the quality of roads and whether or not licensees are open and available to have wood received 24 hours. In some cases the existence or otherwise of a proper dump may also be a factor.

Having said this, an attempt at such an exercise was undertaken between the Central Highlands Carter's Association and representatives of both GCH Harvesting and Midway last year, which had an unsatisfactory conclusion. In that FMA there were 29 trucks operating. Modeling by Midway attempted to show that by changing many more of the truck configurations to mini B Doubles, the truck numbers could be reduced to 22 or 23. The contracting force however argued that the infrastructure was not in place to move to such a rapid transition in truck types.

7.3 Restructuring

It is prudent at this time to consider any possible input that the State Government might have in future restructuring or consolidation of contractor numbers.

The consultants are of the view that the State Government can have a major role to play as a positive catalyst in the necessary consolidation of contractor numbers. The government can play an active role facilitating change by investigating and collaborating with industry as to appropriate initiatives to help ease the burden on contractors that may be required to exit the industry.

If left to pure market forces, rationalisation within the industry is likely to not only be more prolonged than necessary, but also is likely to see a degree of industrial unrest.

As yet the consultants have not done sufficient separate examination and study to predict or cost what the consolidation might look like in terms of contractor numbers.

In addition to consolidation of contractor numbers, there are 2 additional areas in which contractors can play a vital and pivotal role in efficiencies.

Upgrading of Technology

There is no doubt that technological improvement is the single greatest contribution that contractors can make to efficiencies. However, as has been argued previously, such commitment to expensive equipment can only be undertaken where there is security of volume, proper contracts and a reasonable mechanism for the negotiation of rates. There is no getting away from the interdependency of these issues, a fact, which is widely accepted throughout the industry. Any restructuring in the contractor force must be accompanied therefore by a concomitant increase in specialised technology.

Change in Work Practices

Contractors need to be amenable to consolidate their businesses where appropriate and in the case of haulage contractors be prepared to cart 24 hours where infrastructure allows. Although there is a great deal of pride that is often related to a single owner driver or an independent contractor, small business practice must over time give way to genuine commitment to efficiencies. The methodology we outlined earlier should satisfy most contractors of the safety that will be afforded by appropriate change.

7.4 International Competition

Almost all the contractors that the consultants met showed an awareness that only an internationally competitive industry would secure their livelihoods in the medium to long term. It is the consultants' view that such improvements to efficiencies as have been countenanced are well within the realm of the practical and in fact contractors have shown remarkable steadfastness, resilience and resourcefulness in continuing their operations despite, in many cases, very harsh economic realities. It is equally important that both the grower and licensees take note that they too have pivotal roles to play in ensuring an internationally competitive industry.

The consultants are of the opinion that as alluded to earlier, each syndicate must have a basic dialogue with contractors and create a business plan that specifies or attempts to determine the optimal number of contractors. This does not mean that the number of workers needs to decrease significantly but rather the number of operations to become smaller by consolidation or amalgamation. Such consolidation would lead to a greater flexibility in terms of acquisition of expensive equipment, as the acquisition and consequent risk can then be shared by two or three formerly separate organisations.

Similarly, in those areas where larger truck configurations can be justified, there should be a requirement or an entitlement for the FMA manager to demand a minimum number of larger truck types. Provided each organisational structure is supported with its own particular rate structure, as indicated earlier, there should be no financial disincentive for businesses to consolidate their resources. Although these are some of the more difficult issues that touch upon contractor independence and sensitivities, they must be addressed nonetheless.

Once more, however, these issues give more cause to support our earlier recommendation that syndicates must be structured on a genuinely inclusive basis, with effective representation of contractor associations.

8 MORE EFFICIENT USE OF EQUIPMENT

To maintain and improve productivity log harvesting and log haulage contractors need to regularly renew and/or upgrade their equipment. This requires substantial capital investment as the cost of purchasing 2 excavators, including one with a mechanical felling head, and a skidder involves an outlay of over $1 million.

It is not intended that our recommended moves to greater efficiencies would compromise environmental standards through more intensive harvesting. We merely intend that within the sustainable yield, harvesting should be conducted efficiently and safely. The efficiency of logging operations, particularly when high capital cost mechanical felling equipment is being used, is heavily dependent on the level of utilisation of the equipment. A high priority needs to be given to increasing efficiency by better utilisation of equipment.

8.1 Seasonal Closures

To avoid road damage, soil compaction, erosion and stream turbidity problems during rain periods, various restrictions are placed on the times at which logging and carting may occur. These restrictions vary across the State depending on rainfall and soils.

Otways contractors reported that a 100 day season was common in a year of normal rainfall while East Gippsland reported that the potential for about a 200 day season was reduced to 140 to 180 by poor road conditions.

Before proceeding to examine the effect of seasonal closures on the viability of individual contractors and the harvesting and haulage sector, we note that Forestry Tasmania has achieved virtual year round harvesting with terrain and climatic conditions similar to those in Victoria, without compromising the environment. It therefore should be possible to eventually achieve similar results in Victoria.

These are some of the effects of limited harvesting times:

- to extract the contracted volume of timber in the short time available, contractors and carters must finance, maintain and insure equipment that is idle for substantial parts of the year;

- gross under-utilisation of equipment is:

    - an impediment to investment in mechanical harvesters (up to $750,000) which are arguably the most effective means of ensuring faller safety; and

- a barrier to general equipment replacement and modernisation;

- increased pressure to harvest allocated log volumes within a restricted timeframe leads contractors and carters working long days and weekends. This is clearly unsafe as fatigue contributes to increased risk of injuries and fatalities. WorkCover recommends that no more than 12 hours be worked in a day or more than 70 in a week. Yet the circumstances require that contractors and their employees ignore this hazard in order to make a living. It is therefore no exaggeration to say that short harvesting seasons contribute to injury and death.

As mentioned Forestry Tasmania manages almost year round harvesting. This is substantially achieved through techniques such as cording in-coupe roads with slash and passing logs across the coupe using excavators. These measures minimise the impact of machinery effects on wet soils and contractors also report longer tyre life on skidders as the slash forms an improved roadbed.

The consultants are aware that DNRE proposes to trial these methods in the Central Highlands during the 2001 winter in order to assess the environmental and economic effects. These trials should be progressed as a matter of priority.

Stakeholders from other FMAs should be involved, through information and visits, to prepare for the extension of trials to all areas where these methods are judged to be useful. There should not be a closed mind to trialling the techniques in other parts of Victoria.

8.2 Avoidable Losses of Working Days

In our regional consultations we were informed of numerous avoidable delays which together constitute a further erosion of time available for harvesting. The following are examples of avoidable delays:

- In the Central Highlands, a contractor stated that forest closures were sometimes implemented on set dates even when no rain had fallen - therefore the closure was unnecessary. NRE staff present did not directly deny or confirm this saying only; "There is a process and if the process leads to closure on a certain date that is what happens."

- We were shown a video of a coupe where harvesting and carting had been halted because the log landing was muddy. The road was in excellent condition and the crew had asked to be able to load from an embankment onto trucks on the roadway. Permission was refused.

- DNRE officers may, quite correctly, halt operations say on a Friday afternoon due to rain and not allow resumption of operations until they

have inspected the road. If the weather fines up and the DNRE Officer is not available until Tuesday to grant permission to restart operations a day's production is lost.

- One FMA reported that some sawmillers closed down for two weeks over Christmas and did not accept log deliveries for that period which is the peak of the logging season. Conversely, one sawmiller reported that he had opened at weekends to take log deliveries and was bypassed by carters who found the run to Midway at Geelong more financially attractive.

- The system of log grading penalties which provides for the log grader to be removed from the bush for a week, in circumstances of flagrant abuse is another unnecessary constraint. This form of punishment penalises the whole crew. Unless and until a replacement accredited log grader can be found the crew cannot function effectively if at all. No representation was made to entirely remove sanctions for poor log grading. It was merely sensibly argued that punishment should be on the individual, probably in the form of fines, rather than in a form which affects the whole crew.

The financial impact of avoidable losses of working days is illustrated by a case study in Annexure 3.

Inadequate roading also presents a constraint on effective equipment utilisation. We were shown roads that were impassable after one day of light rain. However roading issues are dealt with in greater detail in section 9.3.

8.3 Lost Time Due to Protests and Sabotage

During the conduct of our review two contractors suffered sabotage - one in the Central Highlands and one in the Midlands and logging was disrupted in the Otways by protestors.

The Central Highlands action involved smearing grease on machine steps - clearly aimed at putting the operator at risk. Also, an Otways contractor was denied effective access to his coupe for about 9 working days. The Otways protests were followed by heavy rain and it is unlikely that logging will resume in the targetted coupes until spring. The contractor thereby had his logging season cut by 5-10% and has no chance of recoup the financial losses incurred.

Individual contractors and their families can be severely disadvantaged, both financially and emotionally, by protest action. This situation is clearly unfair - there is almost no one in the industry (certainly no one in our consultations) that does not agree that the protests are aimed at the whole native forest industry. If one coupe is abandoned, the protesters will merely move on to another. If an area is permanently conceded they will move to another.

In this circumstance there is an overwhelming argument for the whole of the industry sharing the burden and establishing a fund to assist contractors financially. Such a fund might also be used for damages and other legal actions. Also some limited private security expertise may be employed to seek to minimise sabotage or catch saboteurs. Another use might be to assist contractors who have suffered sabotage. This would of course be the prerogative of the stakeholders were such a fund to be set up.

Private security groups that have experience in managing the forms of protest and sabotage experienced by the industry may be of assistance in developing risk management plans.

During our consultations we canvassed support for this concept and received a supportive response. Only one participant saw it as an issue that could be simply dealt with by the police. This is not an unreasonable view but it is unrealistic. It is clear from recent statements by police that they have limited resources to respond to protests as they arise. Under the circumstances DNRE have taken a leading role in protest response with police backup. However, despite Ministerial support and assertive DNRE/police action in the Otways the contractor concerned still suffered financial loss.

East Gippsland Logging supplied a detailed response (Annexure 4) on the matter of a contractor support fund and we have attached this to our report to promote discussion.

Given recent actions in State forest there is a clear need to review legislation and empower DNRE staff to seize lock-on devices, bar entry to logging areas, demand names and addresses and make arrests.

Despite the seriousness of protest and sabotage activities detailed information is not always readily available. There needs to be collection of photographs, details of financial losses (contractors, police, DNRE) and insurance costs/premium rises and the effects on particular contractors. This would be useful for increasing community and political awareness over the impacts of protest activity. An accurate tally of the economic costs might be helpful in deciding on a proportionate response.

8.4 Adopting a Systems Approach

When examining the efficiency of the log hauling and harvesting process, one logical method is to see it as a wood production line.

The wood production line starts with the timely preparation of coupes and forward roading by DNRE and ends with the delivery of wood to the sawmill or processor. Unless the whole of this production line is put under the microscope, (and improved) it is the contractors and carters alone who are unfairly expected to deliver higher productivity and lower costs. Processors will use the only tool at their disposal - lower real rates, to meet competition. Also, without the elimination of many of the impediments we have identified, it is unlikely that the hardwood based forest industries can successfully meet the competitive pressures from expanding hardwood plantations.

In developing this perspective, the consultants sought the advice of Mr Greg Pettiona of Australasian Workplace Solutions. Mr Pettiona is an expert in systems designed to identify and change practices, which lead to poor equipment utilisation - one of the central issues identified in this report. Mr Pettiona's work has been independently verified as producing large savings in similar situations to those faced by the log harvesting and haulage sector.

An early step in a systems based examination is to identify clearly, and assign a cost, to every impediment to full and efficient utilisation of the expensive equipment, infrastructure and people.

Information.

One of the most important requirements for a successful systematic approach, is identification of key performance indicators (KPIs). This information should be readily available to all those involved in the production process, preferably as a visual display, so as to be easily understood and acted upon. Of course, such information will not of itself lead to efficiencies unless it is used in making informed decisions.

In practice the consultants found that vital information was often not readily available and was not considered in decisions which impact on costs, efficiency and equipment utilisation.

Information gathering is often tedious and time consuming. However it is a vital part of making informed decisions at a regional level that will deliver a competitive industry capable of delivering country employment.

Ultimately it is up to the stakeholders at a regional level to decide on the relevant KPIs and the formulae for arriving at each KPI. We suggest the following for consideration:

- OH&S - Lost time injuries, near misses, fatalities,
- volume - harvested wood volume against contracted volume,
- equipment utilisation - percentage of days available for logging - percentage available for carting. Days unavailable broken into categories e.g. roads impassable, protests,
- fleet efficiency - tonnes per kilometre,
- roading - costs per kilometre against value harvested,
- cost - pulpwood and sawlog against CPI,
- quality - percentage of correctly graded logs, and
- environment - number of breaches of the Code of Forest Practice

Behind each KPI there would also be an improvement target and a strategy to deliver improvement.

Teams

To carry the production line analogy further, modern employers use teams to implement continuous improvement processes. Team members are trained in leadership, communication, and problem solving skills. They often collect and display at their work station, the agreed KPIs and their trends. Thus they are constantly reminded of areas requiring their attention. The stakeholders in the wood production line appear not to act as a team and the persistence of problems points to a lack of necessary problem solving and communication skills.

The adoption of teams within industry recognises that those people who actually perform the work have much to contribute. This approach has gone hand in hand with flatter management structures and greater responsibility and authority at the shop floor.

In contrast the consultants observed that the contractors and carters are not effectively involved in crucial decisions including those which effect their income.. This appears to be influenced by personalities rather than formal management structures.

The consultants are aware that during 2000, DNRE commendably formed a Chain of Supply Committee to examine and remove (where possible) constraints and inefficiencies. This was effectively the beginning of a systems approach to examining and removing the constraints identified in this report. Unfortunately

this initiative was discontinued for reasons which are not clear. This action seems to have delayed vital work on removing serious efficiency impediments.

We are of the view that this initiative should be revived and regional/FMA arms of the Chain of Supply Committee should also be formed for the obvious reasons that much of the implementation is required at a regional level. Local commitment will be required to increase the chances of success. Also, under a systems approach, the production line team has a primary responsibility for maintaining productivity, quality etc. A team, in this instance, cannot be constituted by a city based committee far from the wood production line.

In our judgement and Mr Pettiona's, to achieve lasting results it will be necessary to train stakeholders in a range of skills required to ultimately carry the continuous improvement process themselves. Committees tend to have a finite life, momentum slows and new problems begin to emerge. Therefore it would be useful to consider adapting an effective currently operating productivity system to serve the log harvesting and haulage sector.

Another common industrial practice is to have joint shop floor and management teams visit enterprises where useful practices have been implemented. Such visits are often useful in overcoming resistance to change. This has already been done on a limited basis e.g. trials using slash to reduce compaction adopted from Tasmania.

Tasmania appears to be a very useful and relatively close place for such visits. They have had the focus that an industry council provides for eleven years and have, or are working on, solutions for many of the problems discussed in this report. The fact that Forestry Tasmania has achieved almost year round logging in many areas is significant.

In the consultants experience local conferences with selected industry practitioners can also be an effective and economical way to canvass new ideas for improvement.

9 IMPROVED WORK PRACTICES

9.1 Better Resource Information

Information on the quality and quantity of log resources available is needed for decisions on the acquisition and allocation of suitable harvesting and haulage equipment, the determination of the number of contractors required and the setting of contract rates.

Regional Forest Agreements were intended to provide long-term stability to forest based industries. The Government has established a process to resolve current uncertainty with respect to sawlog harvesting rates and to restore long-term stability. If reductions to the number of harvesting and haulage contractors are required following the resolution of available sawlog volumes, exit arrangements comparable with that available to the rest of the industry should be applied.

In addition to providing greater certainty with respect to the quantity of timber to be harvested there is also a need to provide better and more reliable information on the quality of logs available for harvesting in Wood Utilisation and other plans. Pre-harvest assessments are widely used by Australian and New Zealand softwood plantation managers to facilitate the planning of harvesting operations to meet wood supply commitments and to optimise revenue from product sales. Improved data on variables such as yield per hectare, ratio of sawlog to residual log, average log size, slope presence or absence of rock and soil conditions would provide a more objective basis for the determination of harvesting rates by negotiation or competitive tendering.

9.2 Improved Strategic Planning

Improved strategic planning is needed to ensure that:

- road networks are planned so that the maximum volume of logs can be hauled over the minimum length of road;
- funds available for the construction and maintenance of timber extraction roads are used efficiently and effectively;
- wood utilisation planning is timely and reliable; and
- coupe plans are prepared in advance and costly delays to the commencement of logging operations are avoided.

Delays in preparing coupe plans can result in reductions of the number of working days available to harvesting contractors and the erosion of profits. This in turn reduces the competitiveness of the harvesting and haulage sector.

9.3 Timber Extraction Roads

Poorly constructed and inadequately surfaced roads limits the number of carting days and coupe access as well as imposing unnecessary wear on tyres and vehicles. The use of larger truck configurations is also limited.

It is acknowledged that sales of larger volumes of residual logs would increase the funds available for road construction and maintenance. However the question of the most effective and transparent allocation of the roading budget remains valid whatever the size of the budget.

The roading charge is a "user pays" levy paid by the industry and administered by DNRE. There is much criticism of the amount of the roading budget that goes to DNRE overhead. Approximately 21% is currently attributed to the roading overhead for costs associated with corporate activities. There has been some effort to reduce this amount in recent years by Forestry Victoria, however, the consultants consider further examination is required.

Roading and coupe schedules are not sufficiently coordinated. One submission gave an example of a road that was constructed at a cost of $225,000 and remains unused because it’s construction was not coordinated with the Wood Utilisation Plan.

The advantages of centralised tire inflation are not realised because DNRE officers will still close rain affected roads in circumstances where the ability to lower tyre pressures would minimise damage.

A DNRE officer also suggested that it should be possible to allocate coupes over a smaller area while still observing environmental requirements. This would allow the concentration of scarce funds into a less extensive road network.

In our discussions with Forestry Tasmania (FT) they mentioned the implementation of a planning tool which will coordinate roading and harvesting and is expected to deliver $1.5 million in cost savings over the next 3 years.

The underlying issue has a familiar theme; there is a lack of effective consultation and planning between DNRE and contractors whose viability is effected by inadequate planning.

A recurring theme of this report is the need to provide the circumstances in which the stakeholders themselves are required to consult with each other. On this issue of exploring ways which deliver the most cost effective roading possible, this will mean sharing the responsibility for planning the efficient expenditure of available funds for road construction and maintenance between DNRE and the restructured syndicates.

9.4 Supervision of Logging Operations

Although the contract between the Secretary of the Department of Natural Resources and Environment and East Gippsland Logging Pty Ltd (EGL) for the harvesting and delivery of log timber from East Gippsland Forest Management Area requires EGL to sign the "Coupe Completion Certificate" to verify that it has been harvested in accordance with the Code of Forest Practices for Timber Production and relevant prescriptions, some NRE officers continue to supervise the performance of logging crews.

Contractors argue that this results in duplication and is wasteful. EGL has 6 Forest Supervisors who are responsible for supervising logging operations and DNRE's resources could be better employed in planning roading and harvesting operations and the timely preparation of coupe plans.

Examples of lack of commercial forestry focus, and orientation to purely environmental issues, can lead situations similar to those outlined in Section 8.2 and Annexure 3 that lead to the under utilisation of logging equipment

We consider that a system of accreditation and licensing of contractors that encourages increased self-regulation and greater accountability could deliver savings and efficiency gains to both DNRE and syndicates.

Prior to the consideration of such a system of accreditation DNRE staff should leave supervision to syndicate staff except where a contractor is shown to commit consistent breaches of the Code of Forest Practices for Timber Production.

9.5 Log Grading and Measurement

Although the current system of log grading has been in operation for over ten years there are continuing problems with its operation which need to be addressed. The problems include:

- log grading is the responsibility of the logging contractor who derive no commercial benefit from accurate grading and it could be argued that "benefit" is negative;

- DNRE seeks to enforce accurate grading by punishing violations or log grading mistakes by suspension of the accredited grader or in the Otways by suspension and fines;

- suspensions particularly for periods of 1 week to 12 months cause occupational stress and financially punishes the contractor and crew by removing one of it's members as they suffer a loss of income until the suspension is served or a replacement log grader is engaged; and

- there are OH&S issues associated with having employees/contractors working in close proximity to machinery and log stacks.

Submissions have not requested a penalty free system - they have advocated a system of monetary fines on the individual. This would remove the stress associated with "letting down the whole logging crew", allow production to continue and provide both OH&S and efficiency benefits. It should be noted however that DNRE only has the power to impose monetary penalties where such penalties are specified in contracts with "principal contractors".

Some sawmillers complained that DNRE is pushing the upgrading of pulp logs to sawlog. We were shown documentary evidence of large grading variations on the same logs both between contractor graders and DNRE officers and between DNRE officers.

There is a strong case for examining of the whole log grading and segregation system and the application of new technologies to increase efficiency and increase safety.

9.6 Management of Cartage

One area in which the consultants were able to identify opportunities to increase efficiency was in the management of cartage trucks.

Cartage is generally arranged throughout the State by either of two ways:

- by logging contractors who either own their own trucks or engage cartage sub-contractors, and who are therefore responsible for the cartage of their own harvested wood; and

- by principal contractors or syndicate management companies who engage the cartage contractors to remove harvested wood from coupes and deliver to licensees.

Generally, the greater inefficiencies (although not necessarily cost imposts) are found in the second category. This category also represents the larger proportion of cartage contractors.

In those FMA’s where it is the role of the principal contractor or Syndicate Manager to manage cartage routes on an operational level, we received many submissions from haulage contractors who complained that routes were often changed at the last moment, work was irregular, and that overall planning was poor. A practical and disturbing result for the cartage contractors was that irregular work created a shortage in truck numbers at specific times so that a

casual work force was then employed. Such measures serve to undermine contractor stability and could be avoided with better management.

We noted that management of cartage contractors was loosely divided into two operational methods. In East Gippsland, each cartage contractor was given a ‘home’ logging contractor. This arrangement has generally been perceived to work poorly. It does not make business sense, and it is highly inefficient, to have a cartage contractor standing idle because his logging contractor is either behind in production, or is unable to work due to weather constraints or other problems.

Conversely, problems with this system were identified when harvesting volume ran ahead of cartage. For example, when trucks could not access a coupe because of road conditions, or a truck was being repaired, undesirably large volumes accumulated on landings.

Cartage contractors should be managed as a fleet, wherein flexibility of workforce can be most efficiently utilised. In theory, this should provide for more reliable volume supply to both the haulage contractors and indeed the licensees. However the actual application of such a system has also met with a number of inefficiencies. In the Central Highlands, where the truck fleet is managed in this way, carters complained of a lack of communication from the syndicate manager, poor coordination of routes, and a general uncertainty about volumes.

9.6.1 Insurance

One aspect of logging truck operations that is beginning to have an critical impact on profitability is insurance.

One submission from a senior cartage operator who has been operating four or five trucks in the industry over the past forty years, showed an alarming recent escalation in the cost of his premiums, even though he had no claims. This has been attributed to the decreasing number of insurance underwriters prepared to insure in the industry.

Anecdotal evidence suggests that more accidents are occurring in the bush as a result of inexperienced - often casual - drivers operating in difficult areas with little knowledge of the terrain and driving requirements.

The hike in insurance premiums does give some credence to the assertion made by many cartage contractors that local, community based operators are more inclined, and have better incentive, to operate safely in regional and provincial townships.

9.6.2 Truck Numbers and Configurations

One of the issues constantly raised by cartage contractors was that they were being pressured to invest in larger pay load trucks – B Doubles and Quad Dogs – but that these trucks were often unsuited to difficult, steep and rocky terrain, and that there were many restrictions on driving the bigger trucks on wet roads. In addition, it was also argued that it was only economically feasible to purchase the bigger trucks, which cost significantly more money than the conventional tri axle jinkers and skels, if they could be worked on a twenty-four hour basis. It was pointed out to us throughout the State that licensees were demanding ‘efficiencies’ that could be gained by engaging the larger trucks that would enable lower rates.

The topic of roading has been dealt with earlier in this report, however it is important to make the following comments in the context of cartage efficiencies.

Whilst the consultants believe that there are number of steps that can and ought to be taken to improve cartage efficiencies, and these are canvassed below, it is the consultants' view that *dramatic* improvements in efficiencies will only be achieved if and when roads are built that will accommodate both larger configurations and driving in wet weather conditions.

The report has thus far dealt with roading on the basis of existing budgets. It is outside the scope of this report to make any recommendations on road budgeting based on a cost-benefit analysis. However highlighting the requirement for

improved road standards - especially in East Gippsland - is a critical fundamental element of cartage efficiency.

It has been discussed elsewhere that each FMA must begin a process in which optimal truck numbers and configuration types are decided. Clearly, there needs to be a balanced cartage fleet that contains a mix of all types of configurations, so that appropriate trucks are matched with the appropriate routes.

If facilitated correctly, with an opportunity for some contractors to exit the industry with dignity, this process would undoubtedly lead to a consolidation and consequent reduction in overall truck numbers.

9.6.3 Efficiencies of Fleet Management

Notwithstanding that in some instances cartage is arranged on a more integrated basis, the consultants are of the view that management of cartage fleets have not provided many of the efficiencies that could have been gained by:

- benefiting from reduced prices for purchase and maintenance of trucks by utilising effective purchasing power;
- exploring opportunities for back-end loads; and
- engaging managers who have experience in fleet management who will set up appropriate systems and explore cartage efficiency issues.

Cartage contractor associations should have a much larger role to play with syndicate management regarding these issues, as well as with DNRE with regard to where roading budgets are spent. The Timber Industry Liaison Committees appear to be ineffective in addressing to the needs and concerns of those contractors for whom the roads are actually being built.

10 SAFETY OF FOREST WORKERS, WORKCOVER AND TRAINING

10.1 Safety of Forest Workers

In April 2000 Coroner Jacinta Heffey reported on a fatality in the Victorian harvesting sector. The fatality was caused by a dead stag falling on a logging contractor. Coroner Heffey's findings (National Occupational Health and Safety Commission Report, 1999) summarise the dangerous nature of the industry as follows:

*"It was discovered that within Australia the forestry and logging industry had one of the highest incidence rates of death, with this rate being **17 times** (our emphasis) higher than the all industry average. The most common mechanism (in 64% of cases) was workers being hit by falling trees and branches."*

Examples provided included:

- *the tree being felled hitting the worker;*
- *the felled tree accidentally hitting another tree which then struck the worker;*
- *a tree not being felled, such as a rotten or dead tree, struck the worker;*
- *the felled tree hitting a worker after the tree initially hit a second tree and was deflected; and*
- *trees that had previously been felled being "hung-up" and later falling on the worker.*

The Coroner further referred to a report from The Tree Felling Safety Group which "found 15 tree related fatalities between 1993/1994 and 1995/1996 in Victoria. Of these, 13 were caused by trees or branches falling."

Ms Heffey made a "finding of contribution" against the deceased. This appears to mean that he was partly to blame for his own death as he did not fell the dead spar which killed him although he had signed a document that he noted that this was a hazard to be managed. We draw this inference from the Coroner's close questioning of witnesses for details regarding why the spar was not felled. A further reasonable inference is that dead spars, a known hazard, should be removed and those who know of this hazard and fail to act may be negligent.

The Eden Logging Investigation and Training Team (ELITT) accident investigation procedures also point to the serious hazard posed by dead stags. In an August 2000 report ELITT gives details of three faller fatalities which had occurred in less than two months. All had been caused by dead stags.

It would be wrong to ignore this accumulation of evidence. The consultants recommend that all hazardous trees, including standing dead trees, be removed as part of the routine harvesting operation. The worker safety and environmental implications of this recommendation should be reviewed.

ELITT's accident investigation work included in the submission of Harris Daishowa is showing a trend to a less safe work environment as NSW has moved for greater tree retention on coupes. Their work is a reminder that clearfelling, as well as being environmentally sound is the safest procedure for workers.

There is a need to recognise that forest harvesting is intrinsically very dangerous whatever the amount of training and personal protective equipment provided. We also need to recognise that the incidence of death and injury is unacceptably high and must be addressed as a matter of priority. Accordingly every opportunity must be sought to reduce hazards by placing workers in reinforced cabins such as those provided by mechanical harvesters.

Since mechanical harvesters alone will not protect workers, procedures must be adopted which separate the worker from hazards. Wherever possible, manual processes in dangerous situations will have to be designed out. A case in point is log grading on the landing in the vicinity of log stacks which have the potential to roll and close to heavy log handling equipment.

10.2 WorkCover

Following the above-mentioned fatality, WorkCover instituted a study into the role of fatigue in accidents. While the report of this study is not yet finalised, preliminary findings have been made available by WorkCover as follows:

"1. That production pressures (especially long hours of work) are a contributing factor towards fatigue in the industry .

2. That hand falling a tree against it's natural direction of fall (e.g. alongside an environmental boundary) makes the job physically and mentally harder thus contributing towards fatigue and the potential for incidents to occur."

While not the final word, this is yet another indicator for the need to extend the time available for harvesting in order to remove the pressure to work unsafe hours. However, some contractors taking part in the study freely admitted that even if production pressure was removed they would still follow the same work patterns. In this case, if longer harvesting seasons do happen it will be necessary to find some sanctions to prevent the working of unsafe hours. Otherwise, working long hours over a longer period will only add to the risk.

The timber industry is disadvantaged by a lack of data required to make informed decisions and implement safety improvement programs. Such is the case with OHS data. Only Australian Paper Plantations could readily produce information which showed safety trends in sufficient detail to fully inform a comprehensive OHS policy. Even WorkCover provides it's statistics in a form aggregating the hardwood and plantation sectors. Log hauling accidents are included in the transport sector. Our request to supply hardwood logging accident data - preferably on a regional basis has not been met at time of writing. In this situation it is not possible to give an accurate picture of safety trends in the industry. Note also that even the Coroner was supplied with information on fatalities that was three to eight years old.

10.2.1 WorkCover Premiums

WorkCover data on premiums suffers the same disadvantage of aggregation already referred to. Also WorkCover does not yet have data on the cost effects of the restoration of common law rights.

The supplied statistics for 99/2000 show average premiums of 5.63% of remuneration. However, we found in practice that premiums quickly rise in the event of major claims – seeing evidence of a 13.6% rate for one contractor who was paying a premium of $67,900 on a wages bill of $500,000.

Clearly there is scope for significant cost savings through effective OHS programs even at the average premium level.

We approached Workcover directly with a request to find ways to reward those contractors with a good safety record through lower insurance premiums. Specifically we asked that those who were prepared to invest in mechanical harvesters should be able to receive a premium reduction in order to encourage what is partially an investment in safety.

We were informed that this was not possible under the current policy regime. WorkCover is however conducting a review aimed at finding ways of using premiums to encourage better performance. It will be necessary for the contracting industry to make a submission to this review.

Common sense would say though that there will always be a large component of premiums which represents the general risk for the particular industry. In other words the whole of the Victorian hardwood logging sector has to make a successful effort to minimise accidents and fatalities if premiums are to reduce substantially.

There is also an apparent inequity in relation to contractors who also run a truck fleets. These contractors pay WorkCover rates calculated at the higher harvesting rates for employees who actually work in the transport sector.

10.2.2 WorkCover Assistance

WorkCover does have some resources (additional to the fatigue study) available to assist the industry including:

- a WorkCover project officer has been assigned to assist the industry;
- a review and rewrite of a guidance document on forestry operations is under way; and
- a Safety Development Fund is available to provide grants to assist in financing specific safety projects.

We note that the VFHCC and the CFMEU have submitted an application to the Safety Development Fund and we support such initiatives.

10.3 Safety and Operator Training

In a search to find a practical safety training scheme to improve industry OH&S performance we asked Harris Daishowa to give us details of the Eden Logging Investigation and Training Team (ELITT). We specifically asked for the provision of information that could be used to evaluate ELITT's effectiveness in lowering accident rates and insurance premiums. Unfortunately, while we were provided extensive and impressive data on ELITT's training efforts the long term trend data could not be supplied.

The services of ELITT and other training providers could be used for meeting the training needs of the harvesting and haulage sector.

10.3.1 Eden Logging Investigation and Training Team (ELITT)

ELITT staff conduct accident investigations and publish comprehensive results to alert the industry where additional precautions are needed. They also collect information on near misses. In an immediate practical sense this is probably more important than keeping information on trends.

In addition to accident investigation some of ELITT's notable features are:

- established 1978;
- employs 2 permanent staff 1 permanent part timer and casual staff as required;
- it is run by a board of both the contractors and licensees and is therefore quickly responsive to the industry needs;

- it is funded by State Forests of NSW, log processing industries and contractors who each contribute 6 cents per cubic metre and by providing training to the softwood sector and other sectors e.g. Local Government on a fee for service basis;

- runs skills training with a safety component;

- runs trials on new chainsaws, protective equipment and logging machinery;

- manages rehabilitation programs,

- has it's own workshop and office space,

- recruits and trains fallers and machine operators,

- runs courses for NSW contractors to achieve Victorian accreditation;

- assists in preparation of industry environment submissions.

In contrast we found that much of the safety training burden in Victoria falls on the individual contractor. In one case we found an excellent safety program run by a contractors wife on an unpaid basis. We are not convinced of the viability or efficacy of these sorts of arrangements in the longer term. Certainly the range of services provided by ELITT could not be provided by even the largest contractor in Victoria.

We are recommending that syndicates adopt a greater responsibility for OHS training and accident investigation. Since ELITT is already accrediting contractors who work in Victoria it would be sensible to avoid re-inventing the wheel and consider paying ELITT to assist in setting up a similar operation for syndicates in Victoria.

Economies may be able to be achieved by syndicates sharing staff and facilities - ELITT already works across wide areas of SE NSW so Victorian staff would be able to service more than one region. As one syndicate reported having to terminate an OHS scheme run for them by the Ballarat University due to falling income, sharing costs would be necessary for a State wide effort. It may also be feasible for Eastern Victoria (Tambo and East Gippsland) to share staff and facilities thus reducing costs. There are TAFE facilities at Lakes Entrance (Forestech) and elsewhere in Victoria also provide training facilities.

10.3.2 Forestech

Our regional consultations identified concerns regarding the difficulty of training new entrants in a production environment where inexperienced workers have the effect of lowering production and therefore the income of the whole crew. Fortunately, Forestech at Lakes Entrance and the Central Highlands Syndicate have come up with a practical solution. Here are sections of Forestech's briefing note:

"The funding base for training providers is focussed on entry level training only. Competitive tendering has driven down profit margins, impacting on employer and employee alike. In the past logging crews having, perhaps, greater profit margins could afford to carry a new entrant and the practice time required to achieve commercial production, for that individual.

The current state of the industry no longer affords this luxury and entry level training only, and does not equip the individual to instantly become a productive member of the crew. Logging crews are traditionally (minimum 3 maximum 4). Each member of the crew relies on the others to contribute given payment is achieved on production figures. This poses significant income problems if a member is not capable of reaching commercial targets. Anecdotal advice indicates in the case of a faller a minimum of 12 months practice is required before an individual would be regarded as a reasonable faller. Obviously a Government funding training system will not provide the length of experience required to achieve commercial experience if it is based solely on that funding.

Hardwood coupes given to a training provider are the least attractive to commercial operations and would generally not be regarded as viable. With syndicated logging, an opportunity exists for the syndicates to assist their members in producing work ready replacement members for crews. This however, requires some commitment by the syndicate and its members to assisting in the creation of productive replacements.

The experience in the Alexandra region of a cooperative approach to training between the syndicate and Forestech has clearly demonstrated the value of exploring change. This trial conducted at Buxton commenced with 4 students in a coupe containing good commercial volume of timber. An agreement was entered into that provided a production payment and students were enrolled in a number of Units from the Harvesting Training Package. The syndicate provided an excavator and Forestech provided a grapple dozer. The training fee for the 4 students (over a number of units) coupled to production payment, allowed sufficient time for this group to reach a level of commercial viability. Three of these individuals are now employed full time in logging crews and have amply demonstrated the value of having sufficient practice time.

The fourth entrant was offered employment but declined. This was achieved despite the short lead-time to commence the program and obtain individual

entrants located locally. It also precluded any ability to sufficiently screen entrants and ensure their aptitude for this industry sector. Whilst all were offered employment within this syndicate after completion, all found employment in the Gippsland region. This was as a result of the entrants original geographic base and albeit they did not provide an immediate return to the syndicate, it was recognised that three more competent entrants in the industry meant three more potential movements within the industry in the longer term.

A number of lessons were learnt from this pilot and would be addressed in any future undertaking of this nature:

- *Sufficient lead-time pre commencement*
- *Aptitude screening of applicants*
- *Sourcing of the entrants locally*
- *All heavy equipment provided by syndicate*
- *Owner operators of machines utilised not on site as their presence, given the machine is paid by metres produced, tends to be focussed understandably on production and not training.*
- *Commercially viable coupes rather than marginal coupes*
- *An understanding by all concerned that this investment in time will cost and that the costs must be shared.*

Some years ago Australian Paper Plantations withheld x cents per metre of timber produced for a training fund and this was applied equally to all training needs for their contract harvesting crews. Perhaps consideration of a similar industry levy could once again be considered to assist in the maintenance of a highly skilled/trained workforce and replacement for normal workforce attrition."

Obviously Forestech's experience shows that an FMA may take the initiative to train new entrants and lose them to another FMA. There is a need to explore ways to spread the training and perhaps to fund it on an industry wide basis so that the costs and benefits are shared.

10.4 Business Training

One of the more unique facets of the industry which became apparent throughout the regional consultation process was that in the vast majority of cases, it was the contractors' wives or partners who handled virtually all the accounting aspects of the businesses.

Although almost all the businesses in this sector of the industry are family owned, the lack of financial awareness of men in these businesses presents some acute problems.

It is vital that the contractors become familiar with accounting principles that will enable them to cost their services in a manner that will not only ensure that appropriate funds are dedicated to critical employee issues such as OH&S, but replacement of machinery and realistic profit requirements.

In addition, the consultants have observed earlier that the industry is likely to see a consolidation of contractor numbers as a certain degree of rationalisation occurs over the next couple of years for a variety of reasons. In this context as well, it is crucial vital that contractors become acquainted with the financial requirements of their businesses.

It was the consultants' feeling that contractors would welcome such training. The consultants did not see the contractors having close relationships with their accountants and part of the training would focus on the benefits such a relationship might have.

It is therefore recommended that the State Government facilitate the provision of basic business training courses tailored to specific industry and regional needs that will be accessible in terms of both price and location to the contractors. Short courses could be conducted in the regional universities and TAFE’s. In the first instance, Government should undertake a short examination of the feasibility of such a program.

The consultants are also aware that some preliminary business training (and I.T.) seminars have recently been conducted across the state by ATEC (Access Training & Employment Centre). Contractor feedback from these one-day seminars has been positive. These seminars too could be used as a model for future training.

11 RECOMMENDATIONS

The following recommendations have been designed to support viable and secure contractor and crew rates and improved conditions in the native forest harvesting and haulage sector at the same time as ensuring competitive, efficient, consistent and safe operations across the State. With each of the recommendations we have indicated whether they are short term or medium term recommendations.

(i) Logging Arrangements

- Greater recognition should be given to the critical role of the harvesting and haulage sector in the supply chain that extends from the forest to the processors of wood products and the statewide Supply Chain Committee should be reconvened by DNRE with representation from all industry stakeholders. The Supply Chain Committee should report to the planned Timber Industry Council on the implementation of the changes proposed in this report. (Short term)

- Supply Chain Committees should also be formed at the regional level with representatives from DNRE, log licensees, contractor associations and unions. These Committees should develop and regularly review harvesting/log supply strategies that will provide the strategic framework for wood utilisation planning. (Short term)

- Where large volumes of logs are being harvested and supplied to multiple customers not for profit “logging syndicates” should have the opportunity to manage harvesting and haulage operations provided that syndicate membership is open to all stakeholders including unions. (Medium term)

- Where logging syndicates are unable to be formed or are unable to meet the specified requirements, DNRE should manage harvesting and haulage operations. Rather than engage a “principal contractor” and introduce an additional profit centre DNRE should engage the necessary contractors direct and recruit suitably experienced personnel to manage the operations. (Medium term)

- In FMAs where the volume of logs being harvested is relatively small and there are few customers the responsibility for coordinating log harvesting should remain with existing licensees. (Medium term)

- That the Secretary of DNRE either licence or enter into a contract with “logging syndicates” providing harvesting and haulage services that set out:

    - the services to be provided;

- an obligation to enter into fair and reasonable contracts with contractors;

- principles for the determination and review of rates; and

- dispute resolution procedures.

The licences/contracts should be for a term of 5 years and may be renegotiated for a further term of 5 years subject to meeting key performance indicators, after 3 years. (Medium term)

- To be "fair and reasonable" the written contracts between the syndicates and harvesting and haulage contractors must incorporate the following items: -

1. Reasonable contract tenure - preferably mirroring their licence/contract with the Secretary.

2. Recognition of fundamental contractor input costs.

3. Performance measurement.

4. Level of investment.

5. Volume.

6. Assignment.

7. Rate setting mechanism with appropriate indexation.

(Medium term)

(ii) Contract Rates and Contract Volumes

- That contracts must provide for the professional costing of work as adopted by one of the available rate models, or any other model accepted by both parties. A suitable model agreed to by both parties, will facilitate the negotiation process which must recognise both the needs of the contractors and the capacity to pay.

  Each rate model must include the principal costs associated with the business. These will include:

  - Machinery
  - Labour costs
  - Repairs and maintenance

  - Fuel
  - WorkCover
  - Superannuation
  - OH&S finance
  - Administration costs

- All of the models must include rates that will reflect the ability for effective changeover of equipment and a reasonable return for capital employed. (Short term)

- Once the basic rate model is established, they can then be tailored to more accurately reflect the difficulty or ease of the work involved. For harvesting contractors, these will include variations for slope, rock and the volume per hectare of logs suitable for harvesting. (Short term)

- That there be access to a binding arbitral mechanism that can review contracts and determine if a contract is unfair. (Medium term)

- Each “logging syndicate” should consult with contractors to determine optimal contractor numbers and prepare and maintain a business plan that considers contractor numbers. (Medium term)

- That the State Government take a role as a positive catalyst in the consolidation of contractor numbers through investigating and collaborating with industry as to appropriate initiatives to help ease the burden on those contractors that may be required to exit the industry. (Medium term)

- “Logging syndicates” look towards engaging managers who have experience in fleet management who will set up appropriate systems and explore cartage efficiency issues.

(iii) Timber Extraction Roads

- Planning and implementation of the roading network should be overseen by a formally constituted committee from DNRE and the restructured syndicates. DNRE should continue to supervise roading operations. (Medium term)

- As part of the benchmarking program a statewide briefing of roading committees should be organised on the details of the Forestry Tasmania planning tool.(Medium term)

- Consideration should be given to closer grouping of coupes to provide for concentration of roading works. (Medium term)

- DNRE with input from the Supply Chain Committee should seek to minimise overhead charges to the roading fund. (Medium term)

(iv) Log Grading

- The system of suspensions for "flagrant abuse" should be immediately replaced by monetary fines, where appropriate, that are proportional to the magnitude of revenue lost. (Medium term)

- An independent appeals mechanism should be available to those who are fined for log grading breaches. (Medium term)

- The proposed Supply Chain Committee should institute a systematic review of the log grading and segregation systems to make them both safer and more efficient. (Medium term)

(v) Forest Protests

- Industry peak bodies should initiate a statewide discussion based on East Gippsland Logging's paper regarding a contractor support fund. The aim should be to have a fund operating by summer 2001/02. (Short term)

- Syndicates should maintain details of forest protests and sabotage in a standard format and report annually to the proposed Supply Chain Committee. (Medium term)

- DNRE in consultation with Victoria Police should provide advice to the Minister on possible amendments to legislation that will enable a more effective response to protest action. (Medium term)

(vi) Seasonal Closures

- Trials on the extension of harvesting seasons should be pursued as a priority. In the event that seasons are extended, contracts should nominate maximum safe working hours. This issue will require further review when the results of the WorkCover Fatigue Study become available. (Short term)

(vii) Forest Safety

- Syndicates should begin discussions with safety service providers with a view to setting up similar schemes to ELITT across Victoria. (Medium term)

- A requirement of future harvesting licences should be that the principals finance and run a comprehensive OH&S training, accident prevention and investigation scheme. This should include data collection on accidents, near misses and fatalities. (Medium term)

- Discussions should be held with WorkCover to gather and disseminate accident and premium statistics in ways specific to the native hardwood harvesting and haulage sector. (Medium term)

- All hazardous trees, including standing dead trees, be removed as part of the routine harvesting operations. The worker safety and environmental implications of this should then be reviewed. (Short term)

(viii) Training and Accreditation

- Syndicates should convene a meeting to be briefed on the Forestech training system and consider ways of expanding it's application and sharing costs. (Medium term)

- Directors of "logging syndicates" should be trained so that they are aware of the responsibilities of Directors. (Medium term)

- An interim system of self supervision should be devised at each FMA level under the coordination of the Supply Chain Committee prior to the investigation of a system of contractor licensing and environmental accreditation. (Medium term)

- The Government facilitate basic business training for contractors in the regions that will be accessible and relevant in terms of both price, location and content to the contractors. Short courses could be conducted in the regional universities and TAFE's. In the first instance, Government should undertake a short examination of the feasibility of such a program. (Medium term)

(ix) Other Recommendations

- Syndicates should discuss and establish agreed Key Performance Indicators (KPIs). Local disribution of agreed KPIs and their trends could be done by e-mail or fax. (Medium term)

- The Timber Industry Council, syndicates and DNRE should organise reciprocal visits and regional conferences on industry issues to generate innovation, acceptance of change and exchange of ideas. (Medium term)

- Forestry Victoria staff from each FMA should be encouraged and supported to undertake study tours to other commercially focussed forestry organisations to experience practices which deliver better commercial outcomes without compromising the environment. These trips could include water catchment staff whose cooperation is required for implementing logging techniques that improve equipment utilisation. (Medium term)

- The Timber Industry Council should establish a web site that publicises and discusses innovative harvesting techniques and equipment. (Medium term)

- DNRE, the Timber Industry Council and industry syndicates should investigate the adaptation of team based continuous improvement processes to log harvesting and haulage. (Medium term)

12 REFERENCES

ABS (1998) Manufacturing Industry, Australia, Cat. No. 8221.0. Australian Bureau of Statistics, Canberra.

Anon (2000) Industrial Relations Taskforce Report, Victorian Government, Melbourne.

Anon (2000) Memorandum of Understanding Victoria Police and DNRE.

Anon (1999) Final Recommendations of the Tree Felling Safety Group

Connell P.,Gilmour C., and Penm J. (1997) Outlook for Woodchips, Australian Forest Products Statistics, June quarter.

Coroner (2000) Inquest into the death of Shane Broadbent.

Forest and Forest Industry Council (1999) Proposed Action Plan for Log Segregation and Utilisation in Tasmania.

Limb R. (2001) Editorial, Forest Logger and Sawmiller, Tasmania.

Ryan T. (1999) A Review of Log Segregation and Utilisation in Tasmania, Forests and Forests Industry Council of Tasmania.

.

ANNEXURE 1

TERMS OF REFERENCE

DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT

CALL FOR CONSULTANCY

EXAMINATION OF LOG HARVESTING AND HAULAGE ARRANGEMENTS IN THE VICTORIAN HARDWOOD SECTOR
TO11200

1. INTRODUCTION

The Department of Natural Resources and Environment (NRE) is calling for tenders from suitably qualified consultants to conduct an examination of log harvesting and haulage arrangements in the Victorian native hardwood sector.

At the time the Regional Forest Agreements (RFAs) were announced the Minister for Environment and Conservation made a commitment to undertake a "review of harvesting arrangements in State forests with particular reference to the viability and security of contractors and bush crews".

2. PURPOSE

The purpose of the study is:-

a. to examine current arrangements for the harvesting and haulage of hardwood sawlogs, residual logs and pulpwood from State forests in Victoria; and

b. to provide recommendations that will support viable and secure contractor and crew rates and improved conditions in the native forest harvesting and haulage sector at the same time as ensuring, competitive, efficient, consistent and safe operations across the State.

3. BACKGROUND

A variety of contracting arrangements exists in the industry. The three typical structures are;

- contractors engaged by individual licensees;

- contractors engaged by a logging syndicate or harvesting company. The logging syndicate is typically controlled by licensees who have processing facilities in the particular Forest Management "Area (FMA); and

- contractors engaged by a logging management company who h olds a lead contract with NRE

Small companies that typically have from one to three logging teams dominate the harvesting and haulage sector. The haulage sector has a significant number of owner drivers as well as a number of small fleet operators.

Seasonal closures of timber harvesting operations are applied in a number of FMAs and cause a number of difficulties for contractors working in these areas. Similarly, unplanned or unforeseen closures due to protest activity also present significant difficulties for the harvesting and haulage sector.

Contractural arrangements may vary from situations where no written contracts exist to contracts of up to 3 years, with provision for rollover to give a potential length of contract from 6 to 7 years.

In addition, the Government has made a commitment to establish a Timber Industry Council (TIC). The TIC will be the principal body responsible for advising on the development of the Timber Industry Plan. The TIC will provide advice to the Minister for Environment and Conservation on strategic directions relating to the timber industry. The TIC will consist of representatives from the key industry sectors and will report directly to the Minister for Environment and Conservation.

4. REQUIREMENTS OF THE STUDY

To investigate and report on the following matters;

a. The structure of current formal and informal contractual arrangements in the harvesting and haulage sector, including any apparent deficiencies in these arrangements including legal structures.

b. Mechanisms to ensure an economically sustainable and stable harvesting and haulage sector, taking into account:

   - volumes to be harvested annually and on a month to month basis;
   - options for variation of contract rates considering all variables;
   - mechanisms that will enable viable rates and improved conditions to apply in the sector; and
   - the benefits that accrue to local communities from stable employment opportunities

c. Market growth for residual wood and the management of changes in log demand.

d. Silvicultural costs, including rates paid for thinning operations.

e. The application and feasibility of new technology in the industry and opportunities for improved efficiencies, including and impediments that will need to be addressed to realise these efficiencies.

f. The general:

- skill level and training needs of the sector;
- level of safety; and
- work conditions.

g. Any other relevant issues such as the potential impact of work disruptions due to protest activity.

h. Provide recommendations that will support viable and secure contractor and crew rates and improved conditions in the native forest harvesting and haulage sector at the same time as ensuring, competitive, efficient, consistent and safe operations across the State.

The study to have regard to:

a) relevant best practice operations in the plantation harvesting sector and the hardwood industry in other states and internationally (where appropriate); and
b) relevant best practice operations in the wider log haulage and general freight haulage industry; and
c) in making any recommendations, the constraints imposed by cyclical variations in the profitability of the sector as a whole.

The consultant is to consider:

a. any legislative or regulatory issues that could impact on the efficient operation of the industry sector;

b. NRE's legal and contractual obligations;

c. the policy objectives of the Government as outlined in the Minister for Environment and conservation's December 1999 statement "A New Framework for Sustainable Forest Management in Victoria". The National Forest Policy

Statement, the Timber Industry Strategy, The Regional Forest Agreements (RFA) and the outcomes of the process; the National Competition Policy; and

d. any relevant matters contained in; the Victorian Industrial Relations Task Force Report.

5. CONSULTATION

During the preparation of the report, the consultant will be required to consider the views of NRE, harvesting and haulage contractor associations, including the Victorian Forest Harvesting and Cartage council (VFHCC), and CFMEU and Victorian Association of Forest Industries. The consultant may also consider the views of other relevant groups or individuals. All such consultations and any material used from such consultations should be fully referenced by the consultant in the reports.

6. MANAGEMENT ARRANGEMENTS AND RESPONSIBILITIES

An Interdepartmental Steering Committee will be established to select the consultant. The steering Committee will be comprised of representatives from NRE (Chair), Department of State and Regional Development and the Department of Treasury and Finance.

Day to day administration will be via the Manager, Forest Policy, NRE. The TI"C will be provided with the draft report for comment. The consultant will provide the final report to the Minister for Environment and Conservation and a copy to the TIC for consideration. The TIC will provide advice from the final report to the Minister for Environment and Conservation.

INFORMATION TO BE PROVIDED BY NRE

The following information will be provided to the consultant;

- examples of current contracts
- Victorian Industrial Relations Task Force Report
- National Forest Policy Statement
- December 1999 Government Forestry Statement "A New Framework For Sustainable Forest Management in Victoria"
- other requested information relevant to the study

OUTPUT

The consultant will be required to submit a draft report and a final report incorporating any required material to the Timber Industry Council and the Minister for Environment and Conservation, respectively. The consultant is tom provide for four (4) copies of the draft report and eight (8) copies of the final report. The reports and all supporting material are to be provided in hardcopy and electronic form compatible with Word for Windows.

The report will become the property of the Department of Natural Resources and Environment and made available to the public, with appropriate consideration of the Victorian Government's 'commercial-in-confidence' guidelines.

9. PROJECT MILESTONES

Submissions for the consultancy will be considered by 13 February 2001. Short listed contenders may be interviewed as part of the selection process.

The following dates are to form the key deadlines:

- preparation of the draft report by 6 April, 2001.
- delivery of the final report by 7 May 2001.

Variations to the timetable will only be considered if significant benefits to the study's outcomes can be demonstrated.

10. SELECTION OF CONSULTANT

Tender submissions should clearly describe the capacity, capability, experience, skills and independence of the consultants in relation to achieving the outcomes of the study and should include the following information:

- brief company history
- methodology to be used for the study
- consultant's management arrangements including appropriate details of any consortium
- personnel to be involved with a profile of their skills and experience]
- evidence of ability to conduct complex industry economic analysis
- fees and cost sought
- other matters of relevance, such as reporting arrangements

- nominate at least 2 appropriate referees, including their contact details

Tender submissions should outline any potential conflict of interest the consultant may have in undertaking this study.

Selection of a consultant will be based on:

- demonstrated knowledge and understanding of the harvesting and haulage industry, particularly in Victoria, and the requirements of the study
- the proposed methodology
- capability to undertake economic analysis and access to interstate information relating to the timber industry
- experience with comparable projects
- ability to commence within 5 days of being offered the Contract
- ability to satisfactorily complete the study within the timelines

Prior to commencing the study the successful tenderer will be required to enter into a standard NRE contract.

11. SUBMISSION ADMINISTRATION

Submissions are to be sealed and clearly marked "**TO11200 Log Harvesting and Haulage Examination"** and should be lodged by mail or couriered by **2pm Thursday 18 January 2001** to:

TO11200
Log Harvesting and Haulage Examination
The Tender Box
Department of Natural Resources and Environment
Ground Floor, 240 Victoria Parade
East Melbourne, Victoria 3002

ANNEXURE 2

CONSULTATION WITH INDUSTRY

ATTENDEES AT CONSULTATIVE MEETINGS

MELBOURNE

Garry Squires	East Gippsland Logging
Doug Liston	Tambo Logging Company
Darrin McKenzie	GCH Harvesting
Greg Richardson	Whitford Harvesting
Robin McKinnell	RS & TC Logging
Les Coles	Tambo Logging Company
Mark Woodman	DNRE
Kendra Dean	DNRE
Kevin Piercy	Syndicated Central Gippsland Logging Pty Ltd
Graeme Edlington	East Gippsland Loggers and Carters Assoc.
Greg Weber	East Gippsland Loggers and Carters Assoc.
Peter Kurrie	East Gippsland Loggers and Carters Assoc.
Alan Fry	East Gippsland Loggers and Carters Assoc.
Jane Calvert	CFMEU
Peter Adams	South West Forest Harvesting
Kylie Cairns	Central Highlands Carters Association
Jim Hinchcliffe	Central Highlands Carters Association
Peter McConachy	Central Highlands Carters Association
Gary Blackwood	Victorian Timber Harvesting Association
Chris Backwood	Victorian Timber Harvesting Association
Tim Christian	Victorian Timber Harvesting Association
Peter Ford	DNRE
Grange Jephcott	DNRE
John McConachy	Victorian Timber Harvesting Association
Peter Keppel	DNRE
Nils Gunnersen	Neville Smith (Seymour)

BAIRNSDALE

Ian Sebire	DNRE
Doug Liston	Tambo Logging Company
Kath Koch	DNRE
Gerard Driessen	DNRE
Allan Richards	Blue Ridge Hardwood
Steve Hodge	Maligo Pty Ltd
Bill Hollingsworth	Hollingsworth Logging
Alan Beveridge	Contractor
Jock Sievers	Contractor
Fred Roberts	Upper Yarra Logging Syndicate
Bob Sotten	Contractor
Harry Cross	Contractor

John Coghey	Dormit Pty Ltd
Ron Schrader	Schrader Logging
Kendra Dean	DNRE
Brian Donchi	Fenning
Kevin Clark	GJK Clark
Graeme Clark	C & H Logging
Gavin Beveridge	AK Beveridge

ORBOST

Bob Humphries	Hallmark Oaks
John Swan	Austimber Industries
Peter Reid	DNRE
Phillip Timpano	DNRE
Carol Barr	Contractor
Margaret and Lindsay Hibberson	Haulage Contractor Orbost
Trevor Wilson	Henrys Timber
Ray Barr	Buchan Valley Sawmills
Jack Light	Brodribb Sawmill Pty Ltd
Jack Ash	Contractor
Ray Jamieson	Jamieson Bros
Graeme Edlington	Contractor
John Richardson	Galeta Pty Ltd
Tony Fecondo	Haulage Contractor
W Box	WG & MR Box Pty Ltd
G & M Johnson	G & M Johnson Pty Ltd
Leon Brunt	LP Brunt Pty Ltd
Ian Yelds	East Gippsland Logging
Max Reynolds	Reynolds Timbers
Nigel Brennan	DNRE
Anne Geary	DNRE
Mark Rodwell	Rodwell Logging
Peter Rodwell	Rodwell Logging
Frank Brunt	Orbost Logging
Frank Whitelaw	Harris Daischowa
Alan Fry	East Gippsland Loggers and Carters Association
Garry Squires	East Gippsland Logging
Peter Kurrle	Cann River Logging

COLAC

Phil Webster	
Mick Murnane	ET & EW Murnane
M Radford	MA & BJ Radford Pty Ltd
K Herron	Haulage Contractor

Des Alford	Haulage Contractor
Peter Adams	Otway Logging Company
Jon Rofe	DNRE
Wayne Benson	Haulage Contractor
Stuart Nowell	Haulage Contractor
Steven Lynch	Haulage Contractor
Michael Nocera	Otway Contractor
Gary Wilson	Otway Contractor
Daryl Babington	Otway Contractor
Adrian Hammond	Otway Contractor

Daylesford

Dale Tiley	Mt Cole Logging
Geoff Proctor	Black Forrest Sawmill
John Slorach	Central Victorian Forestry Company
Bernie Frith	B & J Frith
Jamie Hutchings	Mt Cole Logging

Marysville

Des McNulty	Ryan and McNulty Pty Ltd
Jack Long	J L Sawmill
Darrin McKenzie	GCH Harvesting
Nils Gunnersen	NSTI
Bernie Taylor	GCH Harvesting
Trevor Biffin	GCH Harvesting
Gordon Beach	DNRE
Mark Woodman	DNRE
Jim Hinchcliffe	Central Highlands Carters Association
Peter McConachy	Central Highlands Carters Association
George Chrystie	Cartage Contractor
Marshall Cairns	Cartage Contractor
Rob Kirley	Cartage Contractor
Geoff Snodgrass	Cartage Contractor
Robert Andueza	P & M Andueza Pty Ltd
David Cairns	Cairns Trucking Pty Ltd
Robert Eddy	Eddy Haulage
Angus Appleyard	AG & CD Appleyard Pty Ltd
Leigh Bantick	Leigh Bantick Transport Pty Ltd
Jim Eddy	TJ Logging Pty Ltd
P Ford	DNRE
Kylie Cairns	Marshall Cairns Cartage Pty Ltd
Marshall Walker	Narby Contracting Pty Ltd
Eric and Anne Notley	E & A Notley Transport Pty Ltd
Robin McKinnell	RS & TC Logging

Mal Warnock	Rubicon Cable Company
Phillip Woods	PC Woods Logging Pty Ltd
Gary Moran	Moran Logging
Shane Perry	Perry Logging
D Jensen	RDK
E Eddy	TJ Logging

TRARALGON

Ashley Green	Brashlor Pty Ltd
Peter Caldwell	Toorongo Logging Pty Ltd
Neil Rogan	NR Sarolaw
Colin Robin	Robin Timber Pty Ltd
Chris Blackwood	Blackwood Logging
Mick Brady	MJ & MJ Brady Pty Ltd
Graeme Brown	GE & MS Brown Pty Ltd
Ron McDougal	Ron McDougal Transport
Bryan Whelan	B Whelan Logging
Danny Richards	DT & TM Richards Pty Ltd
Kevin Piercy	Syndicated Central Gippsland Logging
Ray Bell	Victorian Timber Harvesting Association
Peter Ralph	RF & EM Ralph Pty Ltd
Harvey Crane	Australian Paper Plantations Pty Ltd
George Morgan	George Morgan Sawmills
Jim Micah	WH Micah and Sons Pty Ltd
John McConachy	Jacobs Creek Logging
Tim Christian	Cable Logging Pty Ltd
Colin Pattinson	Pattinson Logging
Ian Cox	Cox Logging
David Blackwood	DN & LJ Blackwood
Garry Leeson	Victorian Timber Harvesting Association
Gary Blackwood	Victorian Timber Harvesting Association
Chris Blackwood	Victorian Timber Harvesting Association

CONSULTATION ON DRAFT REPORT - MELBOURNE

Peter Ford	DNRE
Peter McConachy	Central Highlands Carters Association
Jim Hinchcliffe	Central Highlands Carters Association
Kevin Piercy	Syndicated Central Gippsland Logging
Harvey Crane	Australian Paper Plantations
Darrin McKenzie	G C H Harvesting Pty Ltd
Doug Liston	Tambo Logging Pty Ltd
Peter Rutherford	DNRE
Ric Sinclair	VAFI

Brian Walsh	Dept. of State and Regional Development
Sharon McDonnell	DNRE
Annette Pouchaeff	DNRE

LIST OF CONSULTATIVE MEETINGS

- Victorian Association of Forest Industries 7 March
- Construction Forestry Mining & Energy Union 9 March
- Bairnsdale Regional Consultation 19 March
- Forestech (East Gippsland TAFE) 20 March
- Orbost Regional Consultation 20 March
- Alan Fry, EGLC&A 20 March
- Garry Squires, East Gippsland Logging 21 March
- East Gippsland Logging & Carters Assoc. members 21 March
- Executive, Harris Daishowa Pty Ltd 22 March
- Midway Corporation, Steve Roffey & Michael Taylor 26 March
- Colac Regional Consultation 26 March
- John Slorach, Central Victorian Forestry Co. 27 March
- Daylesford regional consultation 27 March
- Central Highlands Timber Harvesting Association 28 March
- Central Highlands Carters Association 28 March
- Peter & Joy McConachy 28 March
- GCH and syndicate management meeting 29 March
- Central Gippsland Regional Consultation 29 March
- APP, John Cameron and Harvey Crane 30 March
- Victorian Timber Harvesting Association 30 March
- Commander Dennis Henry, Victoria Police 4 April

- Peter Rutherford, Peter Ford NRE 11 April
- Katrina Hansen, WorkCover, Project Officer – Forestry 11 April
- Forest Industry Council, Tasmania 23 April
- Mike Gard, Deputy Premier's Office, Tasmania 23 April
- Kim Creak, Forestry Tasmania 24 April
- Wayne Foss, Tasmanian Logging Association 24 April
- Ian Whyte, CEO, Forest Industries Assoc. of Tas. 24 April
- Chris Oldfield, Tasman Communications 29 April
- Control Risks Group Pty Ltd 7 May

LIST OF WRITTEN SUBMISSIONS RECEIVED

FIRST SUBMISSIONS

- Harris Daishowa Pty Ltd
- GCH Harvesting Pty Ltd
- Tambo Logging Company Pty Ltd
- Australian Paper Plantations Pty Ltd
- Syndicated Central Gippsland Logging Pty Ltd
- East Gippsland Logging Pty Ltd
- Upper Yarra Logging Syndicate Pty Ltd
- CFMEU Forestry Division
- Central Highlands Timber Harvesting Association
- Central Highlands Carters Association
- Victorian Timber Harvesting Association
- Jacobs Creek Contractors Pty Ltd
- East Gippsland Logging & Carters Association
- Leigh Bantick Transport Pty Ltd
- J.D. & C.M. Hutchings Pty Ltd
- Brashlor Logging Pty Ltd
- P.C. & B.J. McConachy Pty Ltd
- GH & KG Edlington Pty Ltd
- Tasman Communications
- George Chrystie Transport
- John Richardson, Galeta Pty Ltd

- Brunts Logging Pty Ltd
- Control Risks Group Pty Ltd

We also received a memo from Peter Ford, DNRE, which did not take the form of a submission as such, but raised issues that the consultants ought to consider

SECOND SUMISSIONS

- Australian Paper Plantations Pty Ltd
- CFMEU Forestry Division
- Syndicated Central Gippsland Logging Pty Ltd
- Tambo Logging Pty Ltd
- GCH Harvesting Pty Ltd
- Forestry Victoria
- Central Highlands Timber Harvesting Association
- Department of Treasury and Finance
- Central Highlands Carters Association
- Victorian Timber Harvesting Association
- Victorian Forest Harvesting and Cartage Council

ANNEXURE 3

CASE STUDY – FINANCIAL IMPACT OF AVOIDABLE LOSSES OF WORKING DAYS

CASE STUDY: FINANCIAL IMPACT OF AVOIDABLE LOSSES OF WORKING DAYS

Log harvesting operations may be shut down for a variety of reasons. In many parts of Victoria there are seasonal closures during the wetter winter months to protect environmental and water catchment values and harvesting may only be permitted for 6 to 9 months in any year.

Avoidable losses of working days, particularly where the duration of the logging season is restricted, can be a major factor in determining whether a logging contractor's operations make a profit or a loss in a particular year.

The following case study has been prepared to demonstrate the effect of avoidable losses in the number of available working days on the net income of a logging contractor. The examples of avoidable losses of working days used in this case study have all occurred within the last 12 months although they have not all impacted on any particular contractor.

Operating Environment

Nominal allocation:	Sawlog	17,000 m^3	
	Residual log	33,000 m^3	
	Total	50,000 m^3	
Equipment:	Timco excavator & felling head		
	Komatsu excavator		
	Timberjack skidder		
	Cat D7 dozer		
	2 4WD vehicles		
Logging season:	Normal duration	30 weeks	
	Working days (excl. Sundays & 5 public hols.)		175
	Working days less 10% for wet weather etc		158
Average production per day to achieve allocation			316 m^3 per day
Annual fixed costs:	Machine repayments		$218,000
	Registration and insurance		$10,000
	Workcover		$34,000
	Administrative overhead		$35,000
	Total		$297,000
Variable costs	Wages		$7.35 per m^3

	Fuel	\$1.50 per m^3
	Repairs & maintenance	\$2.00 per m^3
	Total	\$10.85 per m^3
Contract rate:	Sawlogs / residual logs	\$18.25 per m^3

Net income from harvesting:

Total revenue	\$912,500.00
Total costs	
Fixed costs	\$297,000.00
Variable costs	\$542,500.00
Total	\$839,500.00
Net income	\$73,000.00

Financial Impact Avoidable Losses of Working Days

The financial impact on the contractor has been calculated as follows:

Loss of net income = no of days lost x average daily production (316 m^3) x (contract rate (\$18.25) – variable cost (\$10.85) = \$7.35)

The following table lists the causes of a number of avoidable losses of working days.

Reason for Avoidable loss of Working Days	No of lost production days	Lost income
Commencement of logging delayed as coupe plan had not been finalised	5	\$11,613.00
Sawmills not accepting log deliveries due to Xmas closure	8	\$18,580.80
Additional earthworks to restore original ground profile over the length of an internal side-cut road. Additional work not marked on signed coupe plan.	4	\$9,290.40
Unable to shift excess machinery to next coupe to undertake forward roading until coupe clearance certificate issued and offer of a second crew to start forward roading refused	10	\$23,226.00
Criminal damage to excavator requiring location of a replacement while repairs are effected	3	\$6,967.80
Unreasonable delays in permitting logging and carting to commence following wet weather closures	4	\$9,290.40
Total	34	\$78,968.40

Net profit/(loss) for season = $73,000 - $78,968.40
= ($5,968.40)

Conclusions

The viability of timber harvesting contractors can be seriously impacted by the actions of others including:

- the forest owner and its agents;
- processors being supplied with logs;
- persons who for whatever reason, commit criminal offences.

Unless all elements in the supply chain are focussed on improving the efficiency and competitiveness of the harvesting and haulage sector significant losses will be incurred, competent operators will leave the industry and it will become increasingly difficult to attract good contractors into the industry.

ANNEXURE 4

EAST GIPPSLAND LOGGING PROPOSAL FOR A CONTRACTOR SUPPORT FUND

GUIDELINES FOR A "CONTRACTOR SUPPORT FUND"

Recommendations highlighted

1 Name of the fund ??

- **Contractor support fund**
- Industry fighting fund
- Forest Industry fighting fund
- East Gippsland Forest industry fighting fund
- East Gippsland contractors fighting fund

2 Deduction arrangements

- **EGL to deduct following receipt of an authority**

3 Banking arrangements

- **Separate account**
- Signatories – **2 persons**

4 Management committee

- Number of members - **5**
- Representation – **contractors, other contributors**
- Method of selection ?
- Regular changing of members of the committee ?

5 Membership at commencement of the fighting fund – start date – **1 January 2000?**

6 Guidelines for new members joining after the initial setup of the fighting fund

7 Members leaving the fund – entitlements - **nil**

8 Guidelines for "drawing from the fund"

7.1 Eligibility

- **Only members who have contributed**
- **Minimum one month of contributions before eligible except in the first month**
- **Affected contractors not to be at disbursement meetings**

7.2 Wages

- Daily wages for employees of the contractor – rate per day- **$100**
- Daily wages for the contractor **– $150**
- **Payments apply to full days lost only (or if greater than 8 hours lost ?)**
- **Payments for weekend days lost – only where it can be proved weekend work is normal**
- **Payment to employ night security – only where approved by management committee**

7.2 Other losses

- **Fuel and other miscellaneous costs**
- **Machinery damage repairs outside of insurance**
- **Extra float costs**
- **Increase in insurance premium following machine damage**
- **Hire of replacement machine following machine damage**

7.4 Proactive processes

- Advertising, printing etc
- Transport
- Legal processes
- Assistance to other areas with protestor problems ?

8 Monthly contributions for contractors

- **10 cents/m3 D+ produced, 5 cents/m3 E grade and RL from January**
- **Reduction as the fund balance increases – to be determined by the management group**

9 Continuance of the fund

- **After the protestors leave the area**
- **Set a maximum figure after which contributions are suspended**

10 Possible other sources of contributions

- EGL
- Licensees
- Truck contractors
- Employees
- Overload funds
- NRE