

Government response to the Parliamentary Inquiry into VicForests' Operations

April 2018

Executive Summary

The Legislative Council Economy and Infrastructure Committee ('the Committee') initiated an Inquiry into VicForests' operations on 10 May 2017. The Committee considered questions relating to the regulatory oversight of VicForests, VicForests' modelling data and management of timber contracts, industry transition, the protection of threatened species and achieving consensus regarding the forest industry. The Committee tabled the final report to this Inquiry on 31 October 2017.

The Victorian Government thanks the members and staff of the Committee for their report. The Government also acknowledges the important contributions made by the stakeholders who participated in the Inquiry.

The Inquiry found that the forest industry would benefit from improved management and accountability of VicForests and more robust planning by the Government for the long-term transition of the industry. The Committee's majority report made seven recommendations. A minority report written by Samantha Dunn MLC made further observations about strengthening the protection of threatened species.

The Government supports or supports in principle or notes all seven of the recommendations. The Government continues to actively consider the challenges facing forest industries and communities.

Response to Recommendations

Recommendation 1

That the Victorian Government establish robust oversight mechanisms to ensure VicForests complies with the regulatory legal framework that governs its operations in relation to coupe utilisation and environmental obligations.

The Government supports this recommendation.

The Government recognises that regulation of timber harvesting needs to be robust to meet community expectations. The Government has already acted to improve protection of our forests – in the 2017/18 Victorian Budget, \$30.3 million was invested to boost forest and wildlife compliance operations, including recruitment of 25 new regulation and compliance officers within the Department of Environment, Land, Water and Planning (DELWP).

In March 2018, the Victorian and Commonwealth Governments announced a process to modernise Victoria's Regional Forest Agreements (RFAs), based on updated assessments of forest values and consultation with communities and industry. Regulation of timber harvesting is part of the system of forest management accredited by the RFAs. Accordingly, as part of the process of modernising RFAs the Victorian Government will consider Victorian legislation and regulations governing timber harvesting, including the Code of Practice for Timber Production 2014, to make regulations clearer, more consistent, and more effective.

This work will be done in consultation with stakeholders and the community, and will complement the implementation of legislative reform committed to in the Government's response to the Victorian Environment Assessment Council's *Statewide Assessment of Public Land*.

Recommendation 2

That the Victorian Government ensure that VicForests works closely with its contracting staff and customers in relation to log grading and log presentation to ensure that the resources supplied match the mill capacity.

The Government supports this recommendation.

The current sawlog grading system was implemented as part of the Victorian Government's 1986 *Timber Industry Strategy* and was designed to identify sawlog for its highest end-use value. VicForests' Utilisation Procedures provide detailed instructions to harvesting contractors regarding log preparation procedures. Assessing log quality is a highly skilled process, and includes consideration of a range of defects that may occur: branches, rot, insect damage, spiral grain, log straightness, timber stain and gum veins. An accredited log grader prepares, grades and marks logs in accordance with the hardwood log grading specifications outlined in the Utilisation Procedures.

VicForests' field foresters undertake regular monitoring of log grading activities. During coupe visits, concerns relating to log preparation, grading and measurement are raised with the contractor and resolution promptly sought. At least once a month, the supervising forester is required to complete a Coupe Monitoring Record (CMR), which captures information covering safety, utilisation and environmental performance. Informal monitoring checks are also made on coupes from time to time, and provide incidental information regarding grading performance.

The current log grading system is embedded in VicForests' timber sales contracts, licences and harvest contracts as well as resource data. Timber pricing in sales contracts and harvest rates in Harvest contracts are based on the current grading system. Any significant changes to log grading and presentation processes will require industry-wide support. Significant changes have implications across the industry, from sawlog customers to pulpwood customers as well as harvest and haul contractors. As the resource available for harvest and sale changes, VicForests will continue to work with industry around log grading and presentation to continue to meet the needs of multiple customers and their varying resource requirements.

Recommendation 3

That VicForests periodically updates its processes and the data underpinning its modelling outcomes to reflect changing circumstances and to verify on ground resources.

The Government supports this recommendation.

The Government recognises the importance of having robust resource modelling to underpin the sustainable supply of timber to the market.

VicForests maintains a wood supply model to evaluate supply over a 100 year time period. VicForests' modelling has been reviewed by the Victorian Environmental Assessment Council (VEAC) and the Victorian Auditor-General. These reviews found that VicForests' resource modelling process is both rigorous and effective but that improvement can be made to the process, resource data and estimates of forest thinning and profitability.

VicForests' information management processes and systems include ongoing review and improvement in information management and modelling processes.

VicForests' current resource modelling incorporates forecasts of future regulatory impact on resource availability to ensure best estimates of likely changed circumstances. This is done based on the existing regulatory framework.

VicForests is in the process of developing and implementing an integrated wood supply modelling system that integrates the strategic, tactical and operational resource planning and supply scheduling. Over time this will provide greater capacity to incorporate changing circumstances and new information more efficiently and responsively.

The Government supports the process of continual improvement in modelling processes including up-to-date and comprehensive field data where there are suitable cost/benefit outcomes.

Recommendation 4

That VicForests improve its management of timber contracts in relation to recent and future fluctuations in resource supply levels to ensure that individual businesses and industry-wide planning occurs in a timely and effective manner.

The Government supports in principle this recommendation.

The Government supports the intent of the recommendation for ongoing improvement in the management of timber contracts that account for future fluctuations in resource availability. VicForests must balance the length of timber supply contracts with supply risks to the State due to events outside its control. While mitigating risk, this can also put downward pressure on prices or willingness of industry to invest in more efficient equipment.

VicForests has limited capacity to change its operational activities to address short term supply imbalances and can substitute products to a limited extent if supply issues extend beyond the short term. However, events can occur that cannot be anticipated, or therefore planned for, by VicForests, such as landscape scale wild fires. A landscape fire would likely trigger a force-majeure situation. In this situation, any timber supply contracts may need to be renegotiated or terminated, once the impact of the fire on timber supply has been determined.

The Government understands the importance of certainty to businesses and the need to account for fluctuations in resource supply in a planned and -fair manner.

Recommendation 5

That the Victorian Government identify why the Forest Industry Taskforce has failed to provide recommendations about how the government might address the challenges facing the forest, fibre and wood products industries including a lack of employment growth and impact of change on industry, workers and regional communities.

The Government notes this recommendation.

The Government supported an independent Forest Industry Taskforce (Taskforce) to provide leadership to reach common ground on future issues facing the forest industry, including job protection, economic activity, protection of unique native flora and fauna and threatened species.

The stakeholder-led Taskforce, made up of representatives from industry, union and conservation groups, was established in late 2015. In September 2016, the Taskforce released its Statement of Intent outlining significant progress to date. Although the Taskforce did not provide the Government with final recommendations, the Statement of Intent identified agreed future workstreams relating to parks and reserves, fibre and wood supply security, and jobs and regional employment. These have provided useful information in improving Government's understanding of the options for, and their impacts on, conservation, employment and the forest industry.

Among the workstreams agreed in the Statement of Intent, the Taskforce requested advice from the Victorian Environmental Assessment Council (VEAC) on the conservation values of State forests and on future timber supply. The Government subsequently requested VEAC undertake this work. VEAC's assessment of conservation values in State forests examined the Central Highlands, North East, Gippsland and East Gippsland Regional Forest Agreement areas. VEAC examined the biodiversity values, threats to these values and reported on public land use and management. VEAC's Fibre and Wood Supply Assessment identified current and projected wood supply to industry across the same Regional Forest Agreement areas. The Government has received this advice from VEAC and is considering both reports in its decision-making.

The Statement of Intent also noted that a secure wood supply from a mix of sources would best support investment and jobs in the timber industry. The Government's \$110 million commitment to plantation development reflects Government's commitment to the long term future of Victoria's forestry industry – by diversifying and augmenting the supply from native forestry.

The Government continues to actively consider the challenges facing forest industries, communities and the environment, mindful of the opportunities for change identified in the Taskforce Statement of Intent and the assessments undertaken by VEAC.

Recommendation 6

That the Victorian Government work with VicForests and the Forest Industry Taskforce to establish an industry transition plan focusing on use of plantation timber. The plan should include provisions for supporting innovative industry players. It should also include consideration for how current forestry dependent communities can be actively supported through any transition plans.

The Government supports in principle this recommendation.

The Government has allocated \$110 million to secure timber plantation resources to support the long-term sustainability of Victoria's timber harvesting industry. This funding reflects the Government's commitment to the long-term future of Victoria's forestry industry – by diversifying and augmenting the supply from native forestry. Reduced pressure on the State's native forests will also have a range of long term environmental and biodiversity outcomes.

The Government is committed to work with industry, communities and local government in developing a plan to increase timber plantation resources. Work on how to most effectively allocate the \$110 million for timber plantations, incorporating consideration of economic, social and environmental objectives, continues within the Government.

Recommendation 7

That the Victorian Government examine the option of landscape-scale protection of the habitat of the Leadbeater's Possum, as is consistent with its Biodiversity 2037 plan, to support improved environmental compliance and to provide greater certainty for industry.

The Government supports this recommendation.

In March 2018, the Government announced its commitment to work with the Commonwealth Government to modernise the state's Regional Forest Agreements. This will drive strategic, landscape scale management of multiple forest values which will provide greater certainty to forest industries through reduced reliance on reactive management, and support the management for multiple use State forests beyond timber harvesting.

Government also announced the introduction of a program of landscape and pre-harvest threatened species surveys. Landscape scale surveys will be conducted in both state forests and conservation areas to help build a better understanding of the habitat requirements of different threatened species, supporting a transition to landscape-scale threatened species management.

DELWP will also conduct pre-harvest surveys before VicForests commences harvesting to determine if any threatened species are present that require protection. This will reduce the risk of unplanned disruptions and associated costs to VicForests' operations from community based surveying. This will provide greater operational certainty to VicForests, improve the management and protection of threatened species in timber harvesting coupes and will progress adoption of a landscape-scale approach to habitat protection for all species including Leadbeater's Possum.

This investment supports implementation of the Government's biodiversity plan, *Protecting Victoria's Environment – Biodiversity 2037* and recommendations in the DELWP 2017 report *A review of the effectiveness and impact of establishing timber harvesting exclusion zones around Leadbeater's Possum colonies*. These recognise that conservation management is shifting away from planning for threatened species one at a time, and from focusing solely on the most endangered species. The intent of the biodiversity plan is "to cost-effectively benefit the maximum number of species" while recognising some species will not benefit from the wider landscape-scale approach and will require specialised interventions.