PARLIAMENT OF VICTORIA

Legislative Council
Economy and Infrastructure Committee

Inquiry into VicForests operations

Parliament of Victoria
Economy and Infrastructure Committee

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Committee functions

The Economy and Infrastructure Standing Committee is established under the Legislative Council Standing Orders Chapter 23 — Council Committees and Sessional Orders.

The committee's functions are to inquire into and report on any proposal, matter or thing concerned with agriculture, commerce, infrastructure, industry, major projects, public sector finances, transport and education.

The Economy and Infrastructure Committee (References) may inquire into, hold public hearings, consider and report on other matters that are relevant to its functions.

The Economy and Infrastructure Committee (Legislation) may inquire into, hold public hearings, consider and report on any Bills or draft Bills referred by the Legislative Council, annual reports, estimates of expenditure or other documents laid before the Legislative Council in accordance with an Act, provided these are relevant to its functions.

Government Departments allocated for oversight:

- Department of Economic Development, Jobs, Transport and Resources
- Department of Education and Training
- Department of Treasury and Finance.

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This report is available on the Committee's website.

Contents

Terms of reference

Inquiry into the VicForests operations

Self-referenced by the Committee on 10 May 2017

That pursuant to sessional order 6 —

1. the economy and infrastructure committee inquire into VicForests operations, and that the committee reports its findings and recommendations to the Legislative Council by 31 July 2017, and that the inquiry in particular examine:

    a. compliance with VicForests Utilisation Standards, with specific reference to log grading procedures, sawlog preparation and coupe utilisation standards

    b. economic and environmental loss that is attributable to poor compliance

    c. alternatives to the current utilisation standards that could deliver improved economic, social and environmental outcomes

    d. VicForests modelling scenarios around past, present and future supply levels of commercial timber; and

    e. VicForests business practices with specific reference to its approach to customers and any disputes, complaints or investigations.

Chair's foreword

I am pleased to present the Final Report of the Economy and Infrastructure Committee on its Inquiry into VicForests Operations.

This Report looks at the important and complex areas of supply of timber to industry and compliance with regulatory standards.

My focus throughout this inquiry has been on employment within the timber industry and the need to ensure the sustainability of jobs.

The forest, fibre and wood products industry directly employs around 21,000 people across the State and indirectly supports another 40,000 to 50,000 jobs through 'flow on economic activity'. A lot of people depend on the future of the industry.

I believe that to ensure the long term sustainability of jobs, the forest, fibre and wood products industry would benefit from improved management and accountability from VicForests. We need more robust planning by the Victorian Government for the long-term transition of the industry. We also need ongoing transparency and accuracy around supply of timber so that the industry has a clear understanding about what they can achieve in any given period.

In the case of the Heyfield Mill which was purchased by the government during the course of our inquiry, I am concerned that this action while addressing an immediate need to support a regional, timber-dependent community also requires a long-term plan to support businesses and these communities to adapt to changes in the industry.

There is an immediate need to ensure that jobs remain secure. Those Victorians whose jobs in the industry are in jeopardy, and their communities, should be supported through their transition into other work.

A Forest Industry Taskforce was established by the State Government in November 2015. The Taskforce includes representation from forestry industry, union and environmental groups and was formed with the purpose of reaching a consensus on recommendations and proposals to government about issues facing the timber industry, job protection, economic activity, and protection of threatened species. However we have heard very little from this Taskforce, which has yet to provide recommendations to government. My view is that funding may be better spent elsewhere on assisting those working in the industry, or supporting measures to enhance the industry's competitiveness within the global market for fibre and wood products.

I thank all those who gave us information for the Inquiry and who supported our work. Pamie Fung, Inquiry Officer and Caitlin Grover, Research Officer from the Legislative Council supported the Committee and drafted this report and Lilian Topic, Committee Secretary, was in the engine room of the ship. I thank them for their work on the Committee's behalf.

My colleagues I thank for their willingness to engage in robust debate on this and many other subjects.

I commend the report to the House.

Bernie Finn MLC
Chair

Recommendations

1 Introduction

1.1 Terms of reference

An Inquiry into VicForests' operations was initiated by the Economy and Infrastructure Committee on 10 May 2017.

The Committee elected to look into VicForests' operations, focussing on an examination of compliance with VicForests' utilisation standards, and the repercussions of poor compliance on the Victorian economy and environment.

The Committee examined these issues in relation to the State Government's purchase of the Heyfield Mill.

A key issue raised by the Terms of Reference, and related to compliance, is that of supply and availability of timber to industry. Modelling of timber supply, verification of on ground resources, regeneration of forests and contracts and related processes are discussed.

Concerns about the oversight and monitoring of VicForests activities and processes are raised.

The Committee is concerned about the communities and industries that are vitally dependent upon the timber industry. To ensure that the timber industry remains viable in Victoria requires that the government and VicForests direct resources towards strategic planning and sustainable management of timber supply.

The Committee resolved to report to the Legislative Council by 31 July 2017, but this was moved to 17 October after the Committee received other inquiries with more urgent reporting deadlines.

1.2 Background

The focus of this Inquiry is on the operations of VicForests, a Victorian State-owned business established on 28 October 2003 by Order in Council under the *State Owned Enterprises Act 1992*.

Under the Order in Council, VicForests' responsibilities are to:

- Undertake the sale and supply of timber resources in Victorian State forests, and related management activities, as agreed by the Treasurer and the Minister, on a commercial basis
- Develop and manage an open and competitive sales system for timber resources

- Pursue other commercial activities as agreed by the Treasurer and the Minister.

Under the Order in Council, VicForests is obliged to operate its business efficiently and with a commercial focus.[1]

VicForests' Utilisation Procedures set out the environmental and operational requirements which must be followed for all commercial harvesting and haulage managed by VicForests.[2]

VicForests harvests approximately 3,000 hectares of native forest in Victoria each year, under a number of environmental regulations. The timber harvested is used to produce furniture, flooring and other building materials, as well as paper.

VicForests describes sustainability as a key component of its operations. In an informal submission to the Committee, representatives outlined their regeneration practices.

The goal of VicForests is to meet community demand for wood products. It is responsible for supplying approximately one-third of the timber used by industry in Victoria. The *Sustainable Forests (Timber) Act 2004* allows for an Allocation Order to be made by the Minister for Agriculture, which vests property of timber in VicForests.

VicForests is certified to the Australian Forestry Standard, which is aligned to the global Programme for the Endorsement of Forest Certification.

Timber supply modelling is a key component of VicForests work. That is, determining the volume of timber for allocation and sale. According to VicForests, it or external agencies regularly review the modelling processes and data that it uses for timber supply modelling.

VicForests has been criticised by the timber industry for lack of supply and its supply process, and by environmentalists for its logging practices and business losses.

The most recent formal process undertaken by VicForests with the purpose of engaging with industry was the 'Timber Industry Action Plan' in 2012. This process focussed on log specifications and lengths, sub-optimal value recovery, and issues with the grading system.[3]

A Forest Industry Taskforce was established by the State Government in November 2015. The Taskforce includes representation from forestry industry, union and environmental groups and was formed with the purpose of reaching a consensus on recommendations and proposals to government about issues facing the timber industry, job protection, economic activity, and protection of threatened species.

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1 *Victoria Government Gazette,* no. S 198, 28 October 2003.

2 VicForests, *Utilisation Procedures Version 7.0*, attachment to *Submission*. [No no.]. Available on the Committee's website.

3 VicForests, *Submission*, p. 16.

> The Taskforce will aim for recommendations that will enable us to successfully create and sustain jobs and industry growth in a changing economic environment, to conserve high value ecological assets, to protect key species such as the Leadbeater's possum and to implement a durable plan for the good stewardship of Victoria's forests that can be embraced by the Victorian community.[4]

The Taskforce released a Statement of Intent but has yet to provide recommendations to government.

1.3 Inquiry process

The Committee resolved not to formally call for submissions to this Inquiry. The Terms of Reference for the Inquiry are relatively narrow and experts and practitioners were asked to provide evidence within that narrow scope.

The Committee conducted three days of hearings and received evidence from:

- VicForests
- Victorian Association of Forest Industries
- Department of Environment, Land, Water and Planning
- Department of Treasury and Finance
- Environmental Justice Australia
- The Wilderness Society Victoria Inc
- Department of Economic Development, Jobs, Transport and Resources
- Radial Timber Australia
- Australian Sustainable Hardwoods and The Hermal Group.

Full transcripts of evidence for the Inquiry can be found on the Committee's website.

Witnesses provided a range of views about VicForests' operations, canvassing issues such as:

- The role of government and the role of VicForests in timber resource supply
- VicForests' management practices relating to:
  - Timber harvesting requirements
  - Coupe location
  - Road construction, maintenance, and cost
  - Preparation, measurement and grading of logs
  - The effect of fire on forests and preparations for fire safety.
- The future and sustainability of the timber industry in Victoria

4 Forest Industry Taskforce, "Homepage", viewed 1 October 2017, <forestindustrytaskforce.com.au/>.

- Establishing transition plans for industry
- Support for plantation growth
- Status of threatened species
- Impacts on biodiversity, ecosystems and threatened species
- The need to achieve balance between industry supply confidence and environmental concerns.

The imminent sale of the Heyfield timber mill to the Government was a key impetus for the Economy and Infrastructure Committee establishing this Inquiry. The sale of Heyfield was also raised at hearings.

The Committee sincerely thanks all of the individuals and organisations who contributed their views and expertise on VicForests' operations and associated issues to the Inquiry.

1.4 The report

The Economy and Infrastructure Committee's report into VicForests' operations focusses on the key issues raised by the Terms of Reference and by witnesses at hearings.

Chapter 1 provides an introduction to the Inquiry process and a brief summary of VicForests' operations.

Chapter 2 discusses compliance issues relating to VicForests' operations, and outlines the legislative regime that applies to VicForests' operations.

Chapter 3 examines supply issues. This Chapter raises concerns expressed by industry and environmental groups; VicForests' modelling scenarios for wood supply; Leadbeater's Possum exclusion zones; the effect of supply issues on business and customers; and the possibility of achieving balance between industry and environmental concerns.

Chapter 4 discusses the sale of the Heyfield Mill and raises issues that the industry faces in the future. In this Chapter, the Committee makes a number of recommendations for consideration by the Government and VicForests. Recommendations are based on the narrow scope of the Inquiry and the evidence received.

2 Compliance

The legislative framework governing VicForests is complex, with legislation, regulations and policies relating to the portfolios of treasury, agriculture and the environment.

The Code of Practice for Timber Production (Code), lists eight pieces of Commonwealth legislation and 40 State Acts that relate to timber production in Victoria, as well as 15 regulations and 12 policies, all of which VicForests is legally obligated to comply with.

This Chapter examines the regulatory framework in which VicForests operates so as to address the following terms of reference:

(a) compliance with VicForests Utilisation Standards, with specific reference to log grading procedures, sawlog preparation and coupe utilisation standards

(b) economic and environmental loss that is attributable to poor compliance

(c) alternatives to the current utilisation standards that could deliver improved economic, social and environmental outcomes.

The Committee believes that the regulatory framework is crucial for providing an attractive investment environment for the timber industry which in turn will provide a basis for ongoing security of wood and fibre supply and for development of plantation timber. A robust regulatory framework will also ensure environmental compliance and lead to better outcomes for communities affected by timber industry practices. The current regulatory framework is complex and unclear.

2.1 Overview

VicForests is a state-owned enterprise established on 28 October 2003 by the Governor in Council. It is directly accountable to the Victorian Government through the Minister of Agriculture and the Treasurer.[5]

The Order in Council that established VicForests requires it to:

a. operate its business or pursue its undertakings as efficiently as possible consistent with prudent commercial practice

b. be commercial focused and deliver efficient, sustainable and value-for-money services

c. operate in a framework consistent with Victorian Government policy and priorities.

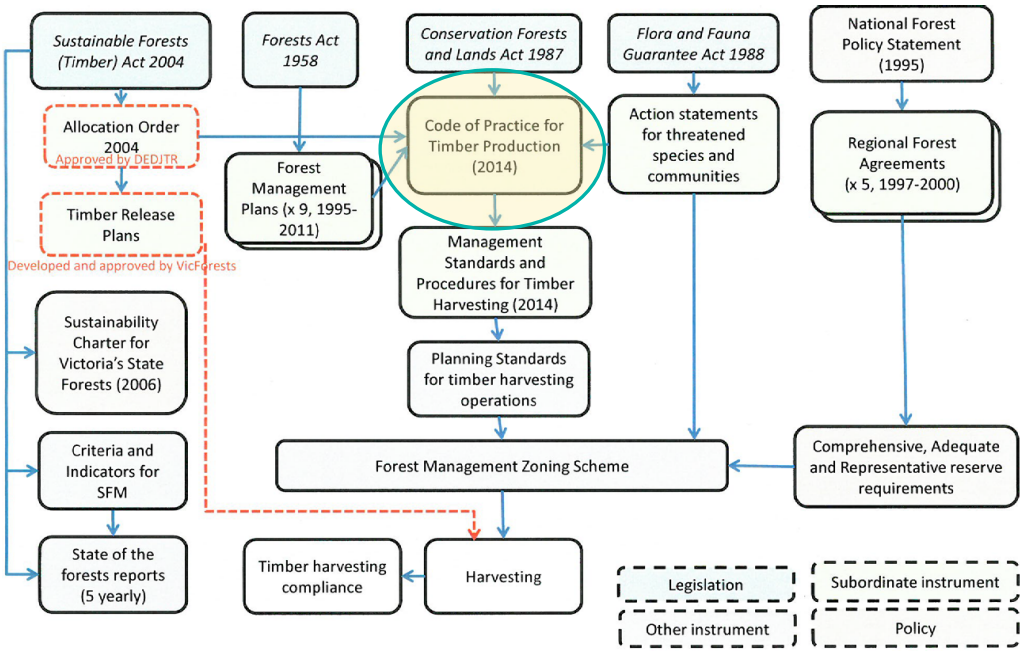
5 VicForests, *Annual Report*, 2015-16, p. 29.

The following legislation and related subordinate instruments and policies relate to the activities of VicForests that the Inquiry is investigating:

1. *Sustainable Forests (Timber) Act 2004* (Vic)
    A. Allocation Order
    B. Timber Release Plan
    C. Sustainability Charter
2. *Conservation Forests and Lands Act 1987* (Vic)
    A. Code of Practice: Timber Production 2014
3. *Forests Act 1958* (Vic)
4. *Flora and Fauna Guarantee Act 1988* (Vic)
5. *Forests (Wood Pulp Agreement) Act 1996* (Vic)

The following image provides an overview of the forest management regulatory framework, including legislation and subordinate instruments. All of the following instruments are state based, except for the National Forest Policy Statement.

Figure 2.1 **Forest management regulatory framework**



Source: Part of a presentation by the Department of Environment, Land, Water and Planning (DELWP). DEWLP 'Presentation' provided by Mr Lee Miezis, Deputy Secretary, Forest, Fire and Regions at the Economy and Infrastructure Committee, Public Hearing, 9 August 2017.

2.2 *Sustainable Forests (Timber) Act 2004*

The *Sustainable Forests (Timber) Act 2004* provides a framework for sustainable forest management and sustainable timber harvesting in state forests.

The Act allows for the Minister of Agriculture to make an Allocation Order which delineates all areas of forest that are available to VicForests for logging or harvesting.[6]

2.2.1 Allocation Order

On the publication of an Allocation Order in the Victorian Government Gazette, property in the timber is vested in VicForests,[7] which may only harvest and/or sell vested timber resources in accordance with the Allocation Order.[8]

The Allocation Order describes:

- the forest stands within state forest to which VicForests has access
- the location of those forest stands
- the total extent and available areas of those forest stands
- the maximum area available for timber harvesting in any five-year period
- any additional activities that VicForests is permitted to undertake
- the conditions with which VicForests must comply in carrying out its functions under the Allocation Order.

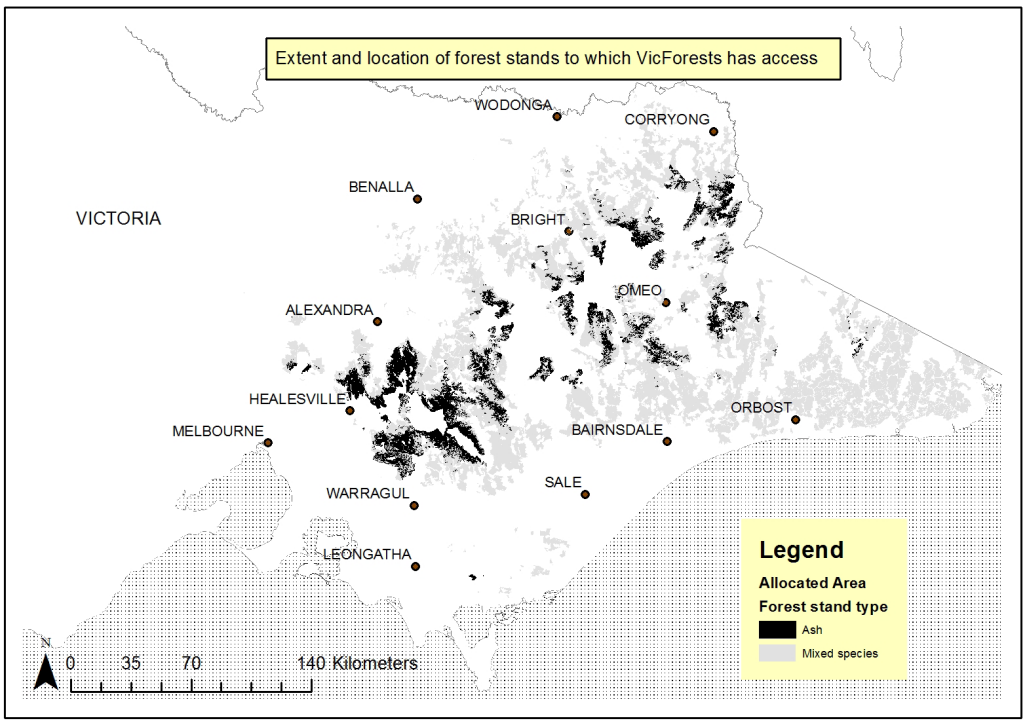
The existing Allocation Order, made in 2013 and subsequently amended on 30 October 2014, is represented in the following map:

6 Part 3 of the *Sustainable Forest (Timber) Act 2004* (Vic).

7 Section 42 of ibid.

8 Agriculture Victoria, 'Timber Allocation Order', viewed 29 September 2017, <agriculture.vic.gov.au/agriculture/forestry/timber-allocation-order>.

Figure 2.2 Extent and location of forest stands to which VicForests has access, based on the Allocation Order 2013 (as amended in 2014)



Source: Department of Economic Development, Jobs, Transport and Resources – Agriculture Victoria, 'Timber Allocation Order', viewed 1 October 2017, <agriculture.vic.gov.au/agriculture/forestry/timber-allocation-order>

The Department of Economic Development, Jobs, Transport and Resources is responsible for managing timber and timber resources, which includes managing and advising on allocation orders.

The Department of Economic Development, Jobs, Transport and Resources consults with the Department of Environment, Land, Water and Planning, Parks Victoria and VicForests in developing an Allocation Order which complies with regulations and environmental protections.

The Department of Environment, Land, Water and Planning manages state forests and regulates compliance by VicForests with the Code of Practice for Timber Production.[9]

The Minister for Agriculture must review the allocation of timber resources every five years and may do so in the event of significant variation in or impact on timber resources available for harvesting.[10] Any such review must consider the following matters:

- the principles of ecologically sustainable development
- any report by the Secretary under section 8

9 Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, pp. 7-8.

10 Section 18 of the *Sustainable Forest (Timber) Act 2004* (Vic).

- the structure and condition of the forest and its impact on future timber resource availability
- VicForests' compliance with the allocation order during the previous five years
- the provisions of any Code of Practice
- VicForests' compliance with any such Code of Practice
- any existing timber commitments VicForests has under any managed licences and any agreements.[11]

2.2.2 Timber Release Plans

VicForests is required to prepare a Timber Release Plan pursuant to the Allocation Order. This shows the location of the areas which may be harvested and regenerated by VicForests over the following three to five years.

The plan includes:

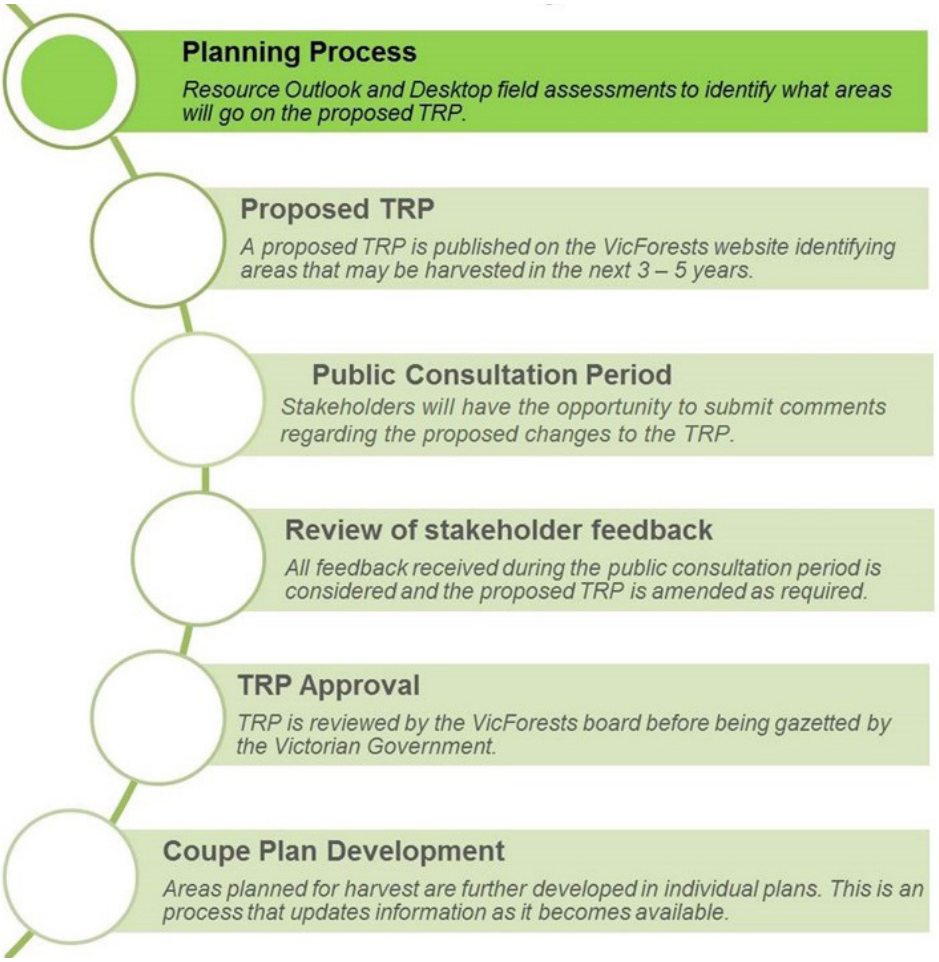
- a schedule of coupes selected for timber harvesting
- the location and approximate timing of timber harvesting in the proposed coupes
- the location of any associated access roads.

Changes to the plan are generally made on an annual basis unless exceptional circumstances occur, such as major bushfires.

The following image illustrates the release plan process:

11 Section 19 of ibid.

Figure 2.3 Timber Release Plan (TRP) Life Cycle



Source: VicForests, 'Timber Release Plan', viewed 1 October 2017, <www.vicforests.com.au/planning-1/timber-release-plan-1/timber-release-plan>

The existing Timber Release Plan was gazetted on 5 January 2017. According to VicForests, the changes made therein were necessary to:

- maintain a flexible two to three year rolling operation schedule
- maintain consistency of the plan with any changes made by the Department of Environment, Land, Water and Planning (DEWLP) to the Forest Management Zoning Scheme
- modify boundaries based on improved planning information gathered on existing approved timber release plan coupes
- facilitate improved access to existing timber release plan coupes.

The VicForests website states that the release of the most recent amended timber release plan has been postponed, as of 30 August 2017.[12]

12 VicForests, 'Timber Release Plan', viewed 29 September 2017, <www.vicforests.com.au/planning-1/timber-release-plan-1/timber-release-plan>.

2.2.3 Sustainability Charter

The Sustainability Charter sets out the objectives for sustainable forest management, in accordance with the Sustainable Forest (Timber) Act, that are consistent with the National Principles of Ecologically Sustainable Development.[13]

Victoria's performance on achieving these objectives is monitored through the Framework of Indicators for Sustainable Forest Management[14] and publicly reported through the five-yearly release of Victoria's State of the Forests Report.[15]

National forest policy

The National Forest Policy Statement, which has been signed by the federal and all state and territory governments, provides for the ecologically sustainable management of Australia's forests.

Australia's Sustainable Forest Management Framework of Criteria and Indicators 2008 forms the basis for measuring and reporting on sustainable forest management in Australia.[16]

Regional forest agreements

The National Forest Policy Statement led to the development of regional forest agreements between federal, state and territory governments.[17] The Federal Government coordinates a national approach to environmental and industry issues, while Victoria is responsible for managing the forests.

The agreements, which are intended to last for 20 years, aim to:

- identify a comprehensive, adequate and representative reserve system and provide for the conservation of those areas
- provide for the ecologically sustainable management and use of forests in each region
- provide for the long-term stability of forests and forest industries.

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13 The Ecologically Sustainable Development Steering Committee, *National Strategy for Ecologically Sustainable Development*, Australian Government, Canberra, 1992. <www.environment.gov.au/about-us/esd/publications/national-esd-strategy-part1>

14 Department of Agriculture, 'Australia's Framework of Criteria and Indicators', viewed 28 September 2017, <www.agriculture.gov.au/abares/forestsaustralia/framework>.

15 See for example, Department of Environment and Primary Industries (2014), 'Victoria's State of the Forests Report 2013', viewed 28 September 2017, <www.forestsandreserves.vic.gov.au/forest-management/state-of-the-forests-report>.

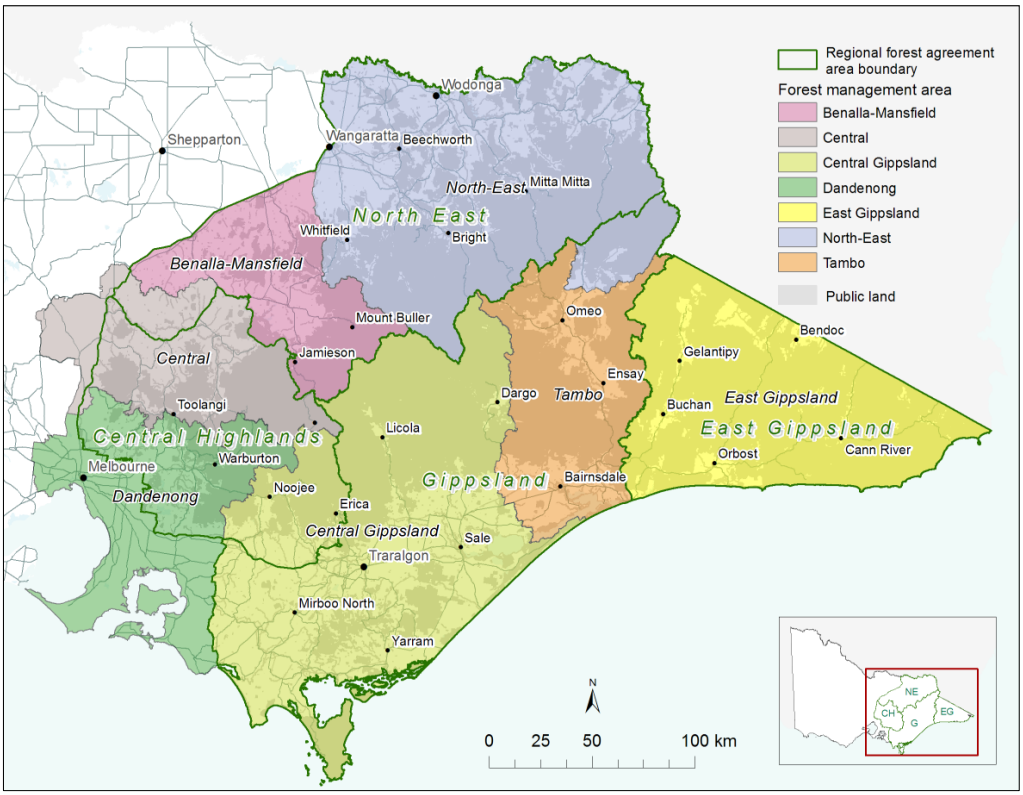
16 Department of Agriculture, 'Australia's Framework of Criteria and Indicators', viewed 28 September 2017, <www.agriculture.gov.au/abares/forestsaustralia/framework>.

17 Department of Agriculture, 'National Forest Policy Statement', viewed 28 September 2017, <www.agriculture.gov.au/forestry/policies/forest-policy-statement>.

The Federal and Victorian governments executed an amendment to the East Gippsland Regional Forest Agreement, extending its expiry from 3 February 2017 to 27 March 2018.[18]

The following map illustrates Victoria's regional forest agreement areas:

Figure 2.4 **Forest management areas (FMAs) in eastern Victoria**



Source: Victorian Environmental Assessment Council (VEAC), Fibre and Wood Supply: Assessment Report, VEAC, the State of Victoria, Melbourne, (2017), p. 10.

Criteria and indicators for sustainable forest management

Victoria's criteria and indicators for sustainable forest management complement the national framework and include 45 indicators that are used to monitor progress towards the objectives set out in the Sustainability Charter.

The Department of Environment, Land, Water and Planning produces a State of the Forests Report every five years to assess progress towards sustainable forest management.

18 Department of Agriculture, 'Victorian East Gippsland Regional Forest Agreement', viewed 28 September 2017, <www.agriculture.gov.au/forestry/policies/rfa/regions/vic-eastgippsland>.

2.3 *Conservation, Forests and Lands Act 1987*

The *Conservation, Forests and Lands Act 1987* (Vic) addresses the requirements for the protection of land, water and wildlife prior to the commencement of harvesting activities.

2.3.1 Code of Practice for Timber Production

Timber Release Plans must be consistent with the Allocation Order and the *Code of Practice for Timber Production 2014* ('Code'), which provides the framework for regulation of commercial timber harvesting operations.

The Code is made pursuant to Part 5 of the *Conservation Forests and Lands Act 1987* (Vic) and is a prescribed legislative instrument that VicForests is required to comply with under the *Sustainable Forests (Timber) Act*.[19]

VicForests is a harvesting entity in relation to State forest and, as such, is bound by the prescriptions of that Act.

It addresses the legal obligations of timber harvesting managers, harvesting entities and operators that must be considered, in addition to existing relevant law.

The Secretary of the Department of Environment, Land, Water and Planning is responsible for ensuring compliance with the Code in State forest and compliance is also monitored by other authorised officers appointed by the Secretary pursuant to the *Conservation, Forests and Lands Act 1987*.[20]

The purpose of the Code is to 'provide direction to timber harvesting managers, harvesting entities and operators to deliver sound environmental performance when planning for and conducting commercial timber harvesting operations in a way that:

- permits an economically viable, internationally competitive, sustainable timber industry
- is compatible with the conservation of the wide range of environmental, social and cultural values associated with forests
- provides for the ecologically sustainable management of native forests proposed for cyclical timber harvesting operations
- enhances public confidence in the management of timber production in Victoria.'[21]

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19 Section 46 of the *Sustainable Forest (Timber) Act 2004* (Vic).

20 Department of Environment and Primary Industries, *Code of Practice for Timber Production*, Victorian Government, Melbourne, 2014, p. 23. Available at: <www.forestsandreserves.vic.gov.au/__data/assets/pdf_file/0016/29311/Code-of-Practice-for-Timber-Production-2014.pdf>

21 Ibid., p. 22.

The Code incorporates management standards and procedures that must be complied with. It is based on the following six principles that:

1. biological diversity and the ecological characteristics of native flora and fauna within forests are maintained
2. the ecologically sustainable long-term timber harvesting capacity of forests managed for timber harvesting is maintained or enhanced
3. forest ecosystem health and vitality is monitored and managed to reduce pest and weed impacts
4. soil and water assets within forests are conserved. River health is maintained or improved.
5. cultural heritage values within forests are protected and respected
6. planning meets all legal obligations and operational requirements.[22]

The Code consists of mandatory actions that are to be conducted in order to achieve operational goals. Failure to undertake a mandatory action would result in non-compliance with the Code.[23]

The Code states that long-term forest management planning must:

i. meet the requirements of this Code and the Management Standards and Procedures
ii. provide for the perpetuation of native biodiversity
iii. maintain a range of forest age classes and structures
iv. identify and mitigate impacts on all cultural heritage values
v. minimise impact on water quality and quantity within any particular catchment
vi. minimise adverse visual impact in landscape sensitivity areas
vii. facilitate effective regeneration of harvested forest.[24]

VicForests, harvesters and sellers of timber resources and the holder of a timber harvesting operator's licence are all required to comply with the Code of Practice.[25]

The Minister may arrange for an audit of the above actors in terms of their compliance with the Code of Practice.[26]

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22 Ibid., p. 26.
23 Ibid., p. 25.
24 Ibid., p. 31.
25 Section 46 of the *Sustainable Forest (Timber) Act 2004* (Vic).
26 Section 47 of ibid.

2.3.2 Management Standards and Procedures

The Management Standards and Procedures instruct timber harvesting managers how to interpret the requirements of the Code. The timber harvesting rules they contain are mandatory and enforceable under the *Sustainable Forests (Timber) Act 2004*.

The Management Standards and Procedures were made in 2014 under the *Conservation Forests and Lands Act 1987* by the then Minister for Environment and Climate Change.

Prescriptions in relation to threatened species protections, previously stated in Forest Management Plans and Action Statements, were transcribed directly into the planning standards with the revision of the Code in 2014.

The Management Standards and Procedures state that a special protection zone of 200m radius centred on each verified Leadbeater's Possum colony must be established when a colony is found in the Central Highlands forest management area.[27]

An application must be made to the Secretary or delegate prior to commencement of timber harvesting operations to create or amend a special protection zone.[28]

2.4 VicForests Utilisation Procedures

The VicForests Utilisation Procedures (procedures), most recently issued in November 2013, set out environmental and operational requirements that must be followed for all commercial harvesting and haulage managed by VicForests.[29]

The procedures provide terms and conditions in regards to all aspects of timber harvesting, including harvesting obligations, coupe boundaries, excluded areas, harvesting requirements, safety, road construction and maintenance, preparation and measurement of logs, grading of logs, grading interpretations and fire protection, amongst others.

They apply to every contractor and licensed timber harvesting operator who is engaged in commercial harvesting with VicForests. Failure by a contractor to comply with the provisions of the Procedures may constitute a breach of contract.[30]

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27 See, Table 13, Appendix 3, Rare or threatened fauna and invertebrate prescriptions, refers to Table 4 Detection based FMZ rules for fauna in Appendix 5 of Planning Standards in Department of Environment and Primary Industries, *Management Standards and Procedures for Timber Harvesting Operations in Victoria's State Forests 2014*, Victorian Government, Melbourne, 2014, p. 77. See also, Department of Environment Land Water and Planning (Vic), *A review of the effectiveness and impact of establishing timber harvesting exclusion zones around Leadbeater's Possum colonies*, Victorian Government, Melbourne, 2017, p. 4.

28 See Clause 2.1.1.3, in Department of Environment and Primary Industries, *Management Standards and Procedures for Timber Harvesting Operations in Victoria's State Forests 2014*, Victorian Government, Melbourne, 2014, p. 23.

29 VicForests, *Utilisation Procedures Version 7.0*, attachment to *Submission*.

30 Clause 2.4 as noted in ibid.

The procedures can be reviewed and changed at any time by VicForests and are reviewed for consistency with legislation, the Code and Department of Environment and Primary Industries, Victoria, management procedures.

The Inquiry is examining compliance with utilisation procedures, with specific reference to:

1. preparation and measurement of logs
2. log grading procedures
3. coupe utilisation requirements.

2.4.1 Preparation and measurement of logs

The obligations in relation to the preparation and measurement of logs is detailed in Clause 14 of the Procedures, which state that a contractor must ensure that:

> (a) all logs are inspected and marked by an accredited log grader
>
> ...
>
> (f) preferred sawlog lengths are only cut where grade and volume are not compromised (2.7m is the minimum sawlog length)
>
> (g) short lengths of sawlog less than 2.7m are not cut from sawlog to waste...

There are also additional clauses in relation to the measurement of logs, whether by volume or weight, and recording timber resources.

2.4.2 Log grading procedures

Clause 15 details the grading process contractors with VicForests must follow, including:

> (i) all sawlogs are prepared, graded and marked by an accredited grader using the hardwood log grading specifications shown in Schedule 9; and
>
> (ii) other logs such as residual logs, are prepared according to specifications attached to relevant coupe plans, which may differ for specific customers; and
>
> (iii) specifications for log grades are not changed, unless a local grading rule proforma is attached to the coupe plan; and
>
> (iv) logs are graded from the butt first; and
>
> (v) logs, as a general rule, are graded to maximise value; and
>
> (vi) if an accredited grader is uncertain as to the grade of a borderline log or how to treat a longbutt, then:
>
> - that log must be set aside for inspection and grading by a VicForests representative; and
> - the VicForests representative will grade and mark the log with a VicForests' brand signifying that VicForests take responsibility for the grade of the log.

According to the VicForests submission, the current sawlog grading system, which has been in use since the late 1980s, was implemented as part of the Victorian Government's 1986 Timber Industry Strategy which sought to identify sawlog for its highest end-use value.[31]

The standard set of product grade codes to identify the specified timber types for log buyers is as follows:

Table 2.1 Timber types

Product Group	Grade Code	Grade Name
Sawlog	B	B grade sawlogs
	C	C grade sawlogs
	D	D grade sawlogs
	U	Ungraded sawlog: D grade or better
	E	E1 grade sawlogs; E2 grade sawlogs
Pulplog	H	High quality (pulp)
	M	Medium quality (pulp)
	L	Low quality (pulp)
Other timber	F	Dry (firewood)
	G	Green (firewood)
	P	Poles/piles/posts

Source: VicForests, Submission, p. 10.

These grades are defined by a number of features, including tree species, as well as:

- the diameter of the log
- the number of defective quarters
- the amount of pipe defect (rotten or absent wood from the centre of the log)
- the number of log quarters affected by various defects, such as gum veins, stain and sloping grain.[32]

Dispute resolution process

In the event of a dispute in relation to log quality following delivery:

- a customer most notify VicForests of an 'off specification notification form' within five working days
- VicForests has five working days to inspect the disputed logs upon receiving the form

31 VicForests, *Submission*, p. 10.

32 Ibid.

- an accredited grader assesses the logs
- costs associated with logs found to be out of specification are borne by the party that branded them, i.e. VicForests or the contractor.

Monitoring and assessing log grading

In its submission, VicForests stated that field foresters undertake regular monitoring of harvesting activities and that issues concerning log preparation, grading and measurement are raised with the contractor during coupe visits.

The supervising forester is required to complete a coupe monitoring record at least once a month, capturing safety, utilisation and environmental performance.

Sawlog assessment at a customer's delivery site only occurs when there is an identified need, such as checking for grading consistency,

Sawlog assessment at a customer's delivery site only occurs in response to one of the following situations:

- the need to check grading consistency
- a belief that a contractor is consistently under grading
- a repetitive problem with a contractor that needs to be rectified.[33]

2.4.3 Coupe utilisation requirements

Clause 6.5 states that:

(a) Subject to paragraph (b), a Contractor must ensure that:

(i) after harvesting is complete, no part of any merchantable tree (other than a designated retained tree) from which a sawlog of Grade D or better could be cut, remains on the coupe; and

(ii) in any clearfall, seed tree, shelterwood or selection coupe, where full residual log utilisation is possible:

- not more than 10m^3 per hectare of merchantable residual log remains on a site with a slope of 15º or less; and
- not more than 15m^3 per hectare of merchantable residual log remains on a site with a slope greater than 15º; and

(iii) no sawlog is stockpiled for more than one week in dry conditions (ie conditions that may lead to splitting, checking or other log deterioration), unless the Contractor takes such action as a VicForests representative approves, at the Contractor's cost, to avoid undue deterioration of the merchantable timber.

(b) A VicForests representative may, from time to time, in response to market forces:

(i) alter any requirement set out in paragraph (a); and

(ii) record the altered requirement in the Forest Coupe Plan.

33 Ibid., p. 12.

Notably, under Clause 6.5(b), VicForests may change coupe utilisation requirements in response to market forces, such as allowing merchantable trees to remain on the coupe.

2.5 Compliance

2.5.1 Logging practices

The following section of this Chapter examines evidence the Committee received from industry and environmental groups that VicForests has not complied with its legal obligations in relation to Utilisation Procedures and the Code.

Despite differing objectives and viewpoints, these groups shared a common concern that Victoria's natural forests could be managed more efficiently and effectively by VicForests.

In its 2013 report into Managing Victoria's Native Forest Timber Resources, the Auditor-General observed that 'ineffective management of timber resources may affect employment within the sector, which has associated socio-economic impacts.'[34]

Log grading, downgrading and waste

Mr Vince Hurley, Chief Executive Officer of Australian Sustainable Hardwoods, told the Committee that VicForests downgrades wood by using B and C-grade wood to fulfil E-grade contracts. At a public hearing, he stated:

> The issue that you have got is that VicForests is losing grade because logs are now basically cut to truck length. A lot of the lower grade log buyers — the E-grade log buyers — that being Big Traffic, who only wants 5.9-metre long logs, and Dormit, who wants logs in pallet multiples, tend to get their logs cut first. If you have a log that is cut, and it creeps back into the B and C grades and it makes that length, that is exactly where it is cut. So that B and C travels off to the E-grade buyer.[35]

Australian Sustainable Hardwoods subsequently sought to amend its timber order to accept lower grade wood, however, this was unsuccessful, as Mr Hurley explained:

> We recognised that issue and proposed to VicForests, 'Look, let's not do that anymore. We'll take that bit of E on the end of the B. We'll change it around, and we'll take that bit'. Unfortunately that was not considered by VicForests to be acceptable, and I think it is probably on the basis that they already have large contracts teed up with their main E-grade suppliers, and they have to fill them. They have contracts, and they have to fill them, so they will continue to supply logs that do contain higher grades into sawmills that are paying for lower grade timber.[36]

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34 Victorian Auditor-General's Report, *Managing Victoria's Native Forest Timber Resources*, Victorian Government, Melbourne, 2013-14, p. 2.

35 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 13.

36 Ibid.

Mr Hurley suggested that cutting timber to length would result in wasted timber, observing:

> ... if contractors are cutting to length, you tend to get lengths that perhaps are wasted on the forest floor rather than being utilised as well, because if it is not quite a truck length to go between the bolsters of a skel, then they cut it and leave it. [37]

The alleged downgrading of wood and wasted timber are problematic and raise questions as to VicForests' compliance with operating requirements provided for in the Order-in-Council, namely that VicForests:

- operate its business or pursue its undertakings as efficiently as possible consistent with prudent commercial practice
- be commercially focused and deliver sustainable and value for money services
- undertake its commercial activities in a manner which will maximise the long term economic returns to Victoria.

Log grading

The following table from the VicForests submission indicates the levels of upgrading and downgrading as a result of log grading assessments on timber supplied to Australian Sustainable Hardwood's Heyfield Mill.

As the proportions downgraded and upgraded are apparently negligible, it appears there is no systemic issue in terms of the quality of timber the Heyfield Mill receives:

Table 2.2 Log grading table

	Checked %	Upgrade C to B	Downgrade B to C	Net change
2014-15	2.8%	6.8%	0.8%	5.9% upgrade
2015-16	1.4%	3.5%	4.7%	1.2% downgrade
2016-17	2.4%	1.1%	4.4%	3.3% downgrade

Source: VicForests, Submission, p. 13.

Export of unprocessed 'residual' timber

Environmental groups told the Committee that VicForests was allowing for the export of unprocessed timber.

The Victorian Timber Industry Strategy requires sawlogs to be processed locally prior to export to protect the local industry.

37 Ibid.

According to news media reports, however, the Victorian Government has relaxed this rule where a purchaser would not otherwise be found for 'residual' timber.[38]

In 2015, VicForests was left with hundreds of thousands of tonnes of 'residual' timber following the loss of a contract with Japanese-owned woodchip company South East Fibre Exports. An expression of interest conducted for the domestic market was unsuccessful.

In evidence to the Committee, Mr Trushell of VicForests observed, 'our position has always been that we will offer it to the domestic market in the first instance, and going forward with reduced harvest levels and our plans we do not anticipate any surplus mountain ash timber going into the log export market.'[39]

The Wilderness Society submitted that the export of sawlogs to China may contribute to the supply challenges Heyfield and other sawmills are facing.[40]

The issue of timber waste was raised in a 2013 Auditor-General's report, which found that at least 250,000 cubic metres of residual wood – 16 per cent of the total harvest – was left on the forest floor and burnt in regeneration burns.[41] The report stated 'It is not sold primarily because there is currently no market for it, although some is also from forests that are so distant from the pulp mill and woodchip exporters that it makes transport costs prohibitive.'[42]

Although the export of sawlogs already felled may be appropriate in certain circumstances, the Committee is concerned about the poor management of timber resources, which has resulted in surplus 'residual' timber.

2.5.2 Environmental compliance

As previously outlined in the overview of the Code, VicForests must ensure that biological diversity and the ecological characteristics of native flora and fauna within forests are maintained.[43] Pursuant to this principle, timber harvesting operations in state forests must specifically address biodiversity conservation risks and consider relevant scientific knowledge at all stages of planning and implementation.[44]

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38 Josh Gordon, 'Victorian Timber Bound for China Under Secret Andrews Government Rescue Plan', *The Age*, 13 July 2015, viewed 29 September 2017, <www.theage.com.au/victoria/victorian-timber-bound-for-china-under-secret-andrews-government-rescue-plan-20150712-gian0v.html>.

39 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017, p. 41.

40 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, pp. 35-6.

41 Victorian Auditor-General's Report, *Managing Victoria's Native Forest Timber Resources*, Victorian Government, Melbourne, 2013-14, p. 46.

42 Ibid.

43 Department of Environment and Primary Industries, *Code of Practice for Timber Production*, Victorian Government, Melbourne, 2014, p. 26.

44 Ibid., p. 27.

The Committee received evidence during the Inquiry that VicForests has not complied with these environmental obligations, particularly the requirement to consider relevant scientific knowledge at all stages of planning and implementation.

Ms Amelia Young, Campaign Manager for Victoria with the Wilderness Society, told the Committee that 'VicForests does not appear to be conducting species surveys prior to logging, as is required by law.'[45]

This position was supported by Ms Danya Jacobs, Forest Lawyer with Environmental Justice Australia, who observed that:

> There have been a number of occasions where logging has commenced, VicForests has failed to detect the presence of that species [the greater glider] in the coupe, the community has conducted a survey, located that species in the area and the mandatory protection for the greater glider, but that area has already been damaged by the logging operation that took place.[46]

Ms Jacobs added:

> We know that there are systemic, ongoing compliance issues relating to threatened species protection in state forests. VicForests consistently fails to identify protected biodiversity values in our forests before it logs, including both threatened wildlife and rainforests, and that is in contravention of requirements in the code of practice for timber production.[47]

Legal action against VicForests

Claims that VicForests has not consistently complied with its environmental obligations appears to be supported by an analysis of legal action that has been taken against it.

In March 2012, the Department of Sustainability and Environment (DSE), as the Department of Environment, Land, Water and Planning (DELWP) was then known, laid five charges against VicForests in relation to harvesting of protected rainforest in East Gippsland in 2010. The charges included directing subcontractors to harvest rainforest against licence conditions and providing inadequate buffers.

An out-of-court settlement was reached between the parties, with VicForests agreeing to rehabilitate 22 hectares of rainforest in the Gippsland coupe and improve procedures by updating the rainforest identification guide and the training framework for identifying and marking rainforest.[48]

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45 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 26.

46 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 20; Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 20.

47 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 13; Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 13.

48 Tom Arup, 'State Drops Illegal Harvesting Case', *Sydney Morning Hearld*, 10 August 2012, viewed 29 September 2017, <www.smh.com.au/national/state-drops-illegal-harvesting-case-20120809-23x3w.html>.

Civil action against VicForests

VicForests has also been the subject of civil court action by environmental groups for alleged breaches of environmental obligations. These include failure to protect nationally significant rainforest sites, to adequately survey areas allocated for logging, and to act upon information provided by environmental groups in relation to the discovery of protected species in coupes allocated for logging.

In 2011 a case was launched by MyEnvironment, a Gippsland based environmental group against VicForests. In 2012 the Supreme Court of Victoria brought down its decision that current law did not protect certain areas which the group believe are the habitat of Leadbeater possums, from logging, finding against MyEnvironment. Case notes reported that:

> The Court also held that VicForests' plans to log the other 2 coupes were not yet detailed enough to rule that logging would necessarily be unlawful in those further coupes, and that the proposed logging did not breach the precautionary principle. However, Osborn JA (who delivered the 2010 decision on logging in Brown Mountain) also said that the evidence showed an urgent need to review the applicable environmental protections, particularly in light of the impact of the 2009 bushfires (which destroyed around 45% of the possum's habitat).[49]

In November 2012, Environment East Gippsland and VicForests reached an out-of-court settlement in which VicForests agreed not to log at three forest areas and to modify logging boundaries in another six rainforest sites of national significance.

In 2015, Environment East Gippsland took court action against VicForests for failing to adequately protect three types of owl species listed as threatened under the flora and fauna guarantee. Environment East Gippsland, VicForests and the Department of Environment, Land, Water and Planning reached an out-of-court settlement to increase protection for the owls in East Gippsland.[50]

In 2015, threatened animal and plant species including gliders, new species of fish and crayfish, as well as rare plants were found in the Kuark forest in East Gippsland, where logging was taking place.[51] In early 2016, Environment East Gippsland and Environmental Justice Australia submitted these findings to VicForests and asked that logging in the specified areas be halted pending the undertaking of detailed surveys and implementation of protection measures. VicForests refused to do so and Environment East Gippsland launched court action as a result. The Supreme Court granted a temporary injunction and, in December 2016, VicForests and Environment East Gippsland reached an

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49 National Environmental Law Review, 'MyEnvironment Inc v VicForests 2012 VSC 91', viewed 10 October 2017, <www.austlii.edu.au/au/journals/NatEnvLawRw/2012/15.pdf>.

50 Kath Sullivan, 'Environment East Gippsland Settles with Victorian DELWP over Owls', *The Weekly Times*, 17 July 2017, viewed 28 September 2017, <www.weeklytimesnow.com.au/news/national/environment-east-gippsland-settles-with-victorian-delwp-over-owls/news-story/d8ed20ff3729758a1af59fef7bf51fa9>.

51 Tom Arup, 'East Gippsland Logging Faces Fresh Court Challenge over Endangered Species', *The Age*, 18 February 2016, viewed 29 September 2017, <www.theage.com.au/victoria/east-gippsland-logging-faces-fresh-court-challenge-over-endangered-species-20160218-gmxdqa.html>.

out-of-court agreement in which the logging agency consented to await the results of further surveys and agreed to put protections in place for wildlife and plants.[52]

2.6 Consequences of non-compliance

2.6.1 Economic impact

The Committee was advised that there are economic opportunities within state forests that are forgone when logging occurs.

Ms Young told the Committee that 'there is a range of forecast losses in the form of wildlife extinctions, missed opportunities and benefits forgone, which manifest as economic losses today and into the future as a direct result of VicForests logging operations.' [53]

To demonstrate these economic losses, Ms Young applied the system of environmental-economic accounting devised by the United Nations to illustrate how other industries could deliver better economic outcomes for Victoria.

The Committee notes that environmental-economic accounting has been adopted by the Department of Environment, Land Water and Planning and Victorian Government accounting as a means to improve understanding of the relationship between the environment and the economy.[54]

Using this framework, Ms Young noted that there are four industries that operate in the Central Highlands region: native forest logging, tourism, water and agriculture. The environmental-economic accounting shows that the industry value added for additional new economic activity per hectare as follows:

- native forest logging - $29
- tourism - $353
- water - $2023
- agriculture - $2667.[55]

Environmental and other groups believe that tourism, water and agriculture can be undertaken concurrently, expanding the economic opportunity in native forests considerably.

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52 *Environment East Gippsland v VicForests, Supreme Court of Victoria*, 2016.

53 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 26.

54 Department of Environment Land Water and Planning, *Valuing and Accounting for Victoria's Environment: Strategic Plan 2015-2020*, Victorian Government, Melbourne, 2015.

55 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 27.

2.6.2 Environmental loss

In evidence to the Committee, environmental groups linked inadequate surveying of coupes to negligible outcomes for the threatened species contained therein.

Ms Jacobs told the Committee that the failure to detect species in coupes allocated for logging resulted in damage to habitats of threatened species. She observed:

> There have been a number of occasions where logging has commenced, VicForests has failed to detect the presence of that species in the coupe, the community has conducted a survey, located that species in the area and the mandatory protection for the greater glider, but that area has already been damaged by the logging operation that took place.[56]

Mr Brendan Sydes, Chief Executive Officer of Environmental Justice Australia, told the Committee that protected species including the Leadbeater's Possum and the greater glider are not being protected and are adversely affected by logging as a result. He stated:

> That is why we have seen Leadbeater's possum elevated to critically endangered under the commonwealth Environment *Protection and Biodiversity Conservation Act*. That is why we have recently had the Victorian government accept the scientific advisory committee's advice under the *Flora and Fauna Guarantee Act* that the greater glider that is endangered ought to be listed under that legislation.[57]

This was supported by Ms Young of the Wilderness Society Victoria, who similarly stated that 'if VicForests complied with prescriptions, as is required by the law, the forest habitat of these species would be less impacted by logging and the species themselves would therefore be less likely to be on extinction trajectories.'[58]

2.7 Conclusion

The Committee accepts the reciprocal nature of environmental and economic sustainability that underpins the regulatory framework in which VicForests operates.

Diminished sustainability of Victoria's state forests has consequences for the survival of industries contained therein, particularly logging, as this Inquiry has found.

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56 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 20.

57 Mr Brendan Sydes, Chief Executive Officer, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 18.

58 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 27.

In his 2013 report, the Auditor-General observed that 'ineffective management of timber resources may affect employment within the sector, which has associated socio-economic impacts.'[59]

Effective management of Victoria's timber resources is critical to the ongoing survival of the timber industry and the ongoing sustainability of state forests.

During the course of the Inquiry, the Committee received evidence about VicForests' current utilisation procedures. The Committee received some evidence regarding alternatives to the current utilisation standards, such as changes to the log grading system that may deliver improved economic, social and environmental outcomes.

However, the Committee recognises the need for improvements to VicForests' operations that would include, increased oversight of its management of timber resources and the need to improve compliance to existing regulation and legislation.

59 Victorian Auditor-General's Report, *Managing Victoria's Native Forest Timber Resources*, Victorian Government, Melbourne, 2013-14, p. 2.

3 Supply

During the Inquiry, local businesses including Australian Sustainable Hardwoods stated to the Committee that there is a demand for locally sourced and locally made timber products in Australia and abroad.[60] The Committee frequently heard that ensuring timber supply to the Victorian timber and forestry industry is vital for the future of local businesses and the State's timber and forestry industry overall.

This Chapter discusses the industry-related and environmental concerns raised by stakeholders in this Inquiry regarding: VicForests' operations, forecasting of future wood supply levels, business practices, and the broader issue of the viability of using the State's native forests for wood supplies into the future.

This Chapter relates to the following Terms of References.

(d) VicForests modelling scenarios around past, present and future supply levels of commercial timber; and

(e) VicForests business practices with specific reference to its approach to customers and any disputes, complaints or investigations.

The Committee found that VicForests' modelling scenarios, while currently sound, could be improved with updated data. The Committee also found a need to further investigate alternatives to ensure that security of wood supplies to industry is balanced with the need to ensure environmental concerns and targets are met. This would be enhanced with improved and updated data.

3.1 Supply issues

During the Inquiry, the Committee frequently heard that the level of commercial timber that could be harvested from state forests was in decline.[61] The Committee heard that protection of the critically endangered Leadbeater's Possum in the Central Highlands has reduced the total serviceable area where VicForests can operate.[62] During the Inquiry, the Committee heard suggestions that the level of protection currently afforded to the Leadbeater's Possum was at the expense of the future of Victoria's timber and forestry industry.[63]

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60 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 19. See also, Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 5.

61 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017, p. 35. See also, Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 26.

62 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017. p. 36.

63 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 17.

The Committee also heard that the forest, fibre and wood products industry directly employs around 21,000 people across the State and indirectly supports another 40,000 to 50,000 jobs through 'flow on economic activity' (see Chapter Four, section 4.2.1 for a breakdown of jobs by forest type).[64] The Committee recognised the immediate need to ensure that jobs remain secure and the need to invest and plan in the future of this industry. The Committee heard that ensuring timber supplies at the appropriate grades and supply levels to appropriate businesses is vital if the Victorian forest, fibre and wood industry is to compete in a global market and have opportunities to innovate.[65]

Throughout the Inquiry, the Committee sought a range of views from industry and environmental groups, resulting in diverse views regarding VicForests' operations. As part of the Inquiry, the Committee also heard competing views regarding current debate about the protection of the Leadbeater's Possum and other threatened species. More broadly, the Committee also heard different views on whether state forests should remain the main source of wood supplies for industry in the present and future. The Committee recognised the need to balance industry concerns with conservation and protection of environmental values and native species.

3.1.1 VicForests' resource modelling and protecting threatened species – balancing industry and environmental concerns

As outlined in Chapter One, VicForests is required to conduct its operations consistent with the principles of ecologically sustainable forest management, including pursuant to the *Sustainable Forests (Timber) Act (2004)*.

As part of their forest management strategy, VicForests develops and annually updates a Resource Outlook, which indicates the level of timber that can be commercially supplied from the State's forests in the medium term and on a sustainable basis.[66] During the Inquiry, the Committee heard that an increase in numbers of protection sites for the critically endangered Leadbeater's Possum had contributed to VicForests' forecasted reduction in native wood supplies alongside other factors such as fire risk (described below).[67]

The Leadbeater's Possum's habitat is the native forests of the Central Highlands where native Ash species also provide a source of timber to industry. The Leadbeater's Possum is a critically endangered species under Commonwealth law and the Committee heard that they are currently protected by a 200-metre 'buffer zone' surrounding sighted colonies and in special protection zones where they have been sighted.

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64 Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries, *Transcript of evidence*, 9 August 2017, p. 1.

65 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 15. See also, Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 3.

66 The extent and location of forest stands to which VicForests has access is based on the Allocation Order reviewed by the Minister for Agriculture every five years. See Chapter Two of this Report.

67 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017, p. 36.

At a public hearing in Melbourne, Mr Nathan Trushell, Chief Executive Officer of VicForests stated:

> Our latest resource outlook is seeing an 88 000-cubic metre decline in what we call D-plus ash sawlog production. That is down from around about 220 000. To summarise, around about two-thirds of that reduction is the result of past or predicted future impacts of conservation measures to support the recovery of the Leadbeater's possum, and around about one-third for other reasons not directly related to bushfires. We had taken that into account, I think back in 2013, in a previous resource outlook.[68]

Further, according to Mr Lachlan Spencer, Acting General Manager, Stakeholder and Planning at VicForests, increased protection sites for the Leadbeater's Possum reduces wood supplies because it means that other areas adjacent to protected colonies, 'whilst not technically reserved, now become inaccessible'.[69]

At the public hearing in Melbourne, Mr Trushell of VicForests stated that the 200-metre buffer zone accorded to areas of protection where the Leadbeater's Possums have been sighted was 'highly precautionary'. Mr Trushell further stated that 'a proper population viability assessment' of the species remains to be conducted. The assessment would provide more accurate data on the Leadbeater's Possums' habitats and provide more accurate modelling scenarios for 'merchantable areas' of the forest.[70]

During the Inquiry, the Committee also heard from environmental groups who stated that the total protected area for the Leadbeater's Possum currently comprised just a small portion (2.5 per cent) of the total forest area that VicForests' manages. At a public hearing in Melbourne, Ms Danya Jacobs, lawyer at Environmental Justice Australia stated:

> Less than 50 per cent of suitable Leadbeater's possum habitat is protected, and the current 200 metre buffers applied to detections of Leadbeater's possum colonies protect only about 2 per cent of suitable Leadbeater's possum habitat. This represents just 2.5 per cent of VicForests total available resource.[71]

According to Ms Jacobs, the 200-metre protection zone was well below the required protection zone, which has been shown by leading scientists to effectively safeguard the species. Ms Jacobs further stated:

> What we know from the leading scientists into the Leadbeater's possum and the mountain ash forests... is that a near complete cessation of logging in the mountain ash forests is required in order to prevent or effectively safeguard the Leadbeater's possum from extinction.[72]

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68 Ibid.

69 Mr Lachlan Spencer, Acting General Manager, Stakeholders and Planning, VicForests,, *Transcript of evidence*, 30 May 2017, p. 38.

70 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017, p. 44.

71 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 12.

72 Ibid., p. 14.

Throughout the Inquiry, the Committee was presented with diverse views about the future of logging in the State's native forests. According to Mr Brendan Sydes, Chief Executive Officer of Environmental Justice Australia these positions had become increasingly 'irreconcilable', with much needed alternatives to ensure industry and environmental concerns are met.[73]

The Committee is aware that the State Government has convened a Forest Industry Taskforce and that the taskforce has gathered representatives of industry and environmental conservation groups to arrive at 'long term' recommendations and proposals regarding the future of Victorian forests.[74] During this Inquiry, the Committee heard from witnesses who are also members of the Taskforce in their primary capacity. The Chair of the Taskforce was not available for commentary.[75] The Committee believes any further investigation of VicForests' operations would benefit from the Taskforce's now overdue recommendations (see also, Chapter Four).

While the Leadbeater's Possum has been a focus of the debate between industry and environmental groups over the use of state forests for wood supplies, the Committee heard that a landscape-wide approach, is required in order to better address the concerns of both industry and environmental groups. A landscape-wide approach would assess state forests on the whole for industry and conservation values.

At a public hearing in Melbourne, Mr Tim Johnston, Chief Executive Officer of the Victorian Association of Forest Industries argued that the current species-by-species approach to protecting threatened species was not as effective as it could be for balancing industry and environmental concerns. He stated:

> Our view is that we should be assessing our forest resource for timber supply and for conservation values across the whole forest... So we need to be assessing the whole landscape rather than just doing it on a coupe-by-coupe basis, because I would argue that by doing that you end up with a patchwork at best that certainly impacts negatively on industry but probably does not support the broader conservation concerns.[76]

Mr Johnston's view is supported by the findings of a July 2017 report by the Department of Environment, Land, Water and Planning into the impact of timber harvesting exclusion zones.

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73 Mr Brendan Sydes, Chief Executive Officer, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 23.

74 The original timeline for the Forest Industry Taskforce was to deliver recommendations to the Government by the end of 2016. The Taskforce's website indicates that the timeline has shifted. Forest Industry Taskforce, 'Progress', viewed 22 September 2017, <forestindustrytaskforce.com.au/?page_id=48>.

75 Mr Tim Johnston, Chief Executive Officer of the Victorian Association of Forest Industries; Ms Amelia Young, Campaign Manager of the Wilderness Society Victoria and Mr Vince Hurley, Chief Executive Officer of Australian Sustainable Hardwoods, who gave evidence to this Inquiry, are listed as members. See, Forest Industry Taskforce, 'Taskforce Members', viewed 22 September 2017, <forestindustrytaskforce.com.au/?page_id=22>.'

76 Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries, *Transcript of evidence*, 9 August 2017, p. 7.

The report found that road construction is more complex and costly around timber harvest exclusion zones and results in resource isolation as adjacent forest areas become more difficult and, in some cases, uneconomic to access.[77]

A significant proportion of impacts to industry from the timber harvest exclusion zones comes from loss of access to timber outside the zones and increased roading costs, the report observes.[78]

In light of the inefficiencies associated with timber harvest exclusion zones, the report recommends a transition away from detection-based timber harvest exclusion zones and towards landscape-scale planning and management. This will provide 'greater certainty and reduced costs to industry,'[79] thereby improving both economic and environmental outcomes.

During the Inquiry, the Committee heard that an alternative to the current approach is to consider adopting a landscape-wide approach to address the needs of industry and environmental concerns in the State's forests. At a public hearing in Melbourne, representatives of the State Government stated that this is already a direction that the government is heading towards. Mr Lee Miezis, Deputy Secretary of Forest, Fire and Regions, within the Department of Environment, Land, Water and Planning (DELWP) stated at a public hearing:

> Over the longer term we may be able to secure better outcomes for the Leadbeater's possum by improving our landscape-scale planning and protection measures — the landscape-scale planning is certainly consistent with the current biodiversity 2037 plan, which really moves away from prioritising actions, if you like, for individual species to an approach that considers all species and all threats, and actions that effectively deliver the maximum benefit for the most species. The report also recommends further field surveys and improvement of departmental models to support this.[80]

Mr Sydes of Environmental Justice Australia told the Committee that instead of the current focus of discussion on whether the protection of threatened species needs to be foregone in favour of industry, 'you need systematic landscapes to be able to give protection, in the form of its own national park', which would provide better environmental outcomes than the present approach.[81]

During the Inquiry, Mr Sydes also described an administrative delay that has added to the concerns that environmental groups have regarding VicForests' management of the State's forests. At a public hearing in Melbourne, Mr Sydes stated that there is currently a departmental delay between a listed species known to be threatened under the *Flora and Fauna Guarantee Act (1988) (Vic)* and the

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77 Department of Environment Land Water and Planning (Vic), *A review of the effectiveness and impact of establishing timber harvesting exclusion zones around Leadbeater's Possum colonies*, Victorian Government, Melbourne, 2017, p. 4.

78 Ibid., pp. 4-5.

79 Ibid., p. 6.

80 Mr Lee Miezis, Deputy Secretary, Forest, Fire and Regions, Department of Environment, Land, Water and Planning, *Transcript of evidence*, 9 August 2017, p. 13.

81 Mr Brendan Sydes, Chief Executive Officer, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 18.

species having an action plan drawn up by the department. The present situation has further delayed protection of threatened native species in state forests.[82] While VicForests' has factored in the Leadbeater's Possum in their resource modelling, the Committee heard ongoing concerns from environmental groups regarding VicForests modelling process and the protection of all threatened native species and environmental values.

The Committee also heard of other factors that have contributed to the decline in wood supplies from the State's forests that included:

- Past bushfires in the State and ongoing fire risk
- Regeneration issues
- Improved timber yield and data analysis
- Decrease of available area in some water catchments
- VicForests' management of timber harvesting

There was a consensus among stakeholders that past and potential bushfires continues to have a major impact on state forests, wood supply and threatened species. According to Mr Lee Miezis, Deputy Secretary of Forest, Fire and Regions at the Department of Environment, Land Water and Planning:

> Fire events in Victoria have impacted about 12 per cent of the state over the last 15 years, and this includes bushfires that burnt 1.3 million hectares in 2002–03; 1.2 million hectares in 2006–07, of which 55 000 hectares was available for timber harvesting; and 430 000 hectares in 2009–10, of which about 16 000 hectares was ash forest that was available for timber harvesting in the central highlands — so that 16 000 hectares was destroyed — and a further 9000 hectares was burnt but at a lower severity.[83]

At a public hearing in Melbourne, Mr Miezis further cited the Victorian Environmental Assessment Council *Fibre and Wood Supply: Assessment Report* (April 2017), which found that bushfires 'present a real threat to the timber industry' and to the environment.[84]

According to the Victorian Environmental Assessment Council's recent *Fibre and Wood Supply: Assessment Report*, a key challenge facing VicForests and the native forest industry will present itself with the 'exhaustion' of older forests, which will occur before new age classes of forests became available. The report's findings also noted that the current 1939 Ash forests, which have provided wood supply, are threatened by fire risk.[85] The Assessment Council's report overall indicated

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82 Ibid., p. 21.

83 Mr Lee Miezis, Deputy Secretary, Forest, Fire and Regions, Department of Environment, Land, Water and Planning, *Transcript of evidence*, 9 August 2017, p. 11.

84 VEAC was established under the Victorian Environmental Assessment Council Act (2001). VEAC's role is to 'conduct investigations', which have been requested by the State Government in relation to the 'protection and ecologically sustainable management of the environment and natural resources of public land'. See, Victorian Environmental Assessment Council, 'About VEAC', viewed 19 September 2017, <www.veac.vic.gov.au/about-us/about-veac>.

85 Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. x.

that a range of factors including fire risk, increased protection of threatened species and climate change would lead to a reduction in wood supplies drawn from the State's forests in the coming 20 years.[86]

VicForests' submission states that every area is assessed prior to harvest and a detailed 'coupe plan' is prepared prior to each harvest, which considers a range of factors in order to protect values such as streams, wildlife habitats and steep slopes before work begins.[87] Following harvests, VicForests undertakes regeneration of coupes by sourcing localised seeds to ensure that the trees, which grow at a coupe will match the mix of species that existed on the site before harvest.[88]

During the Inquiry, environmental groups highlighted issues with regeneration and VicForests' operations. According to the Wilderness Society Victoria and Environmental Justice Australia, the rate at which the state forests were being harvested for wood was unsustainable. At a public hearing in Melbourne, Ms Danya Jacobs of Environmental Justice Australia stated that 'there were significant areas of public forest' which were 'failing to regenerate' after VicForests' operations.[89] According to Ms Jacobs, while VicForests has based its calculations and management on 80-year rotations, VicForests harvesting now occurs at shorter rotations with adverse effects to forest regeneration.[90]

The Committee also heard that shorter rotations increased fire risk. At a public hearing in Melbourne, Ms Amelia Young, Campaign Manager for the Wilderness Society Victoria stated that she has been a member of the Victorian Forest Industry taskforce and that the taskforce had received 'some advice that logging on an 80-year rotation means that a forest is 40 per cent more likely to burn'.[91]

According to environmental groups, the pressure to supply wood to industry was leading to VicForests harvesting at shorter rotations with an adverse impact on the forests' ability to regenerate. As part of their forest management strategy, representatives of VicForests stated during the Inquiry that they currently harvest timber on a 60 to 120 year rotation.[92]

Security and certainty of supply was an issue for all industry stakeholders and the Committee was concerned to hear that wood supply from the State's native forests have been forecasted to decline. Accurate forecasting and appropriate measures need to be taken to address fire risk and successful regeneration of VicForests' coupes, which have a flow-on effect on industry and the environment.

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86 Ibid.

87 VicForests, Presentation to Committee: 'Parliamentary Inquiry into VicForests' Operations', 30 May 2017. A coupe is a proposed harvest area.

88 VicForests, *Submission*, p. 4.

89 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 13.

90 Ibid.

91 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 35.

92 Mr Nathan Trushell, Chief Executive Officer, VicForests, *Transcript of evidence*, 30 May 2017, p. 35.

3.1.2 VicForests' resource modelling

In the Committee's view, accurate forecasting information that is made publicly available supports industry planning. In this regard, the Committee was interested to hear from stakeholders regarding the accuracy of VicForests' resource modelling.

In their submission, VicForests noted that the Victorian Environmental Assessment Council's recent assessment of fibre and wood supplies had recommended that VicForests update the data underpinning their resource modelling; the Victorian Environmental Assessment Council noted that the data underpinning their modelling process was 'now 15 – 25 years out of date'.[93] Nonetheless, VicForests emphasised that the Victorian Environmental Assessment Council's assessment had concluded that VicForests' modelling is 'sound'.[94]

An earlier Auditor-General's audit of the systems in place to deliver sustainable timber resource management outcomes found that VicForests' approach to estimating the sustainable harvest level has been 'largely effective'.[95] Regarding VicForests' forecasting of supplies and harvesting operations, the Auditor-General recommended that VicForests continue to 'improve its 20-year planning for where and when to harvest' and to 'modify its approach over time as circumstances change'.[96]

During the Inquiry, the Committee also heard that there is more that VicForests could do to incorporate data about further forecasted protection sites for all threatened species.[97]

According to Mr Johnston, Chief Executive Officer of the Victorian Association of Forest Industries, VicForests' modelling is fairly accurate, however:

> There is always room for improvement. This could be assisted by aligning modelling with additional on-ground verification of resource availability and quality subject to their own resource constraints. In particular it would be helpful if the statewide forest resource inventory was updated to reflect current conditions.[98]

The earlier Statewide Forest Resource Inventory was developed by the Department of Sustainability and Environment. It was initiated in 1993 and completed in 2004 and provided information about the amount of merchantable wood at the time of modelling. The primary aim of the inventory was to provide forest managers with information to make informed and consistent sustainable

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93 Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. x.

94 VicForests, *Submission*, p. 20.

95 Victorian Auditor-General's Report, *Managing Victoria's Native Forest Timber Resources*, Victorian Government, Melbourne, 2013-14, p. x.

96 Ibid.

97 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 12.

98 Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries, *Transcript of evidence*, 9 August 2017, p. 2.

yield forecasts and decisions on land-use planning and resource allocation.[99] According to the Victorian Environmental Assessment Council's assessment report on fibre and wood supplies:

> The current system The [Statewide Forest Resource Inventory] SFRI has not been repeated since, so current (i.e. 2016-17) estimates of wood volume in State forests are based on updating the forest description annually to reflect harvesting and fire events and modelled yields. The most recent update is 2016.[100]

The Assessment Council's report further explained, VicForests' 'forest growth model is used to project the current forest inventory forward in time'.[101] The model estimates forest growth functions grouped by individual species or groups of similar species. The forest growth model underpins VicForests' yield estimates and it was developed for VicForests in 2014-15.[102]

Based on the evidence received, the Committee is of the view that VicForests' modelling scenarios are largely sound. Nonetheless, they require ongoing updated data and further on-ground verification to improve the accuracy of VicForests' Resource Outlook.

The Committee supports further investigation into best practice data and modelling scenarios to ensure the accuracy of VicForests' Resource Outlook. Current modelling practices are sound nevertheless would benefit from updating.

3.2 VicForests' business practices

Much of the evidence received about VicForests' operations in this Inquiry focused on VicForests' compliance with regulations, supply issues, and the effects of maximising harvest of wood from the State's native forests on industry, community and the environment.

During the Inquiry, the Committee heard of the need for all measures to be taken by VicForests to ensure that timber sales commitments match current and projected wood supplies. Throughout the Inquiry, the Committee remained cognisant of Australian Sustainable Hardwoods' recent sale of the Heyfield Mill due to insufficient wood supplies, which became a catalyst for the present Inquiry.[103]

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99 Department of Sustainability and Environment, *Victoria's Statewide Forest Resource Inventory: Central, Dandenong and Central Gippsland Forest Management Areas (Natural Resources Report Series 07-1)*, Victorian Government, Melbourne, 2007. Accessed at <slideblast.com/victorias-statewide-forest-resource-inventory-amazon-s3_5978b9491723dd454dbf5263.html>. See also, Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. 26.

100 Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. 26.

101 Ibid.

102 Ibid.

103 Sale of the Heyfield Mill has been covered by the media and continues to be covered by the media at the time of the report's writing. See for example an earlier news report, Nicole Asher, 'Heyfield Locals Preparing for Fight to Save Australian Sustainable Hardwoods Sawmill', *ABC*, 24 January 2017, viewed 19 September 2017, <www.abc.net.au/news/2017-01-24/heyfield-locals-fight-for-hardwood-mill/8206824.>.

The Committee did not receive conclusive evidence identifying systemic problems with VicForests' business practices. However, the Committee heard from several stakeholders who raised concerns about VicForests' compliance with the regulations that govern its operations (see Chapter Two).

While aware of the insufficient supply issue at Heyfield Mill, the Committee did not receive evidence during this Inquiry of systemic problems in VicForests' business practices. The Committee recognises the importance of ensuring that VicForests' modelling of wood supplies is accurate and that timber sales agreements relate to projected supply levels. The Committee also identified a need for improved communication with industry and the community regarding the forecasted levels of wood supply.

3.2.1 Timber sales agreements

VicForests conducts timber sales by using a range of processes described as 'open and competitive'.[104] Buyers need to meet VicForests' eligibility criteria – one of which is to ensure that sawlogs will be processed in Australia.[105]

VicForests' commercial commitment comprises of 265,000 cubic metres per year, Ash pulplog to be supplied to Australian Paper by the State of Victoria to the year 2030 in accordance with the *Forests (Wood Pulp Agreement) Act 1996*. In addition to its agreement with Australian Paper, VicForests holds a number of shorter-term sales agreements with purchasers of sawlog and pulplog.[106]

VicForests noted in their submission that 'timber sales and forest contracting agreements are made well in advance of actual harvest.'[107]

Further, from time to time, VicForests is challenged to balance the mix of log species and grades generated from a coupe with its sales commitments. In some cases, as VicForests noted, the corporation has sold low-grade logs to their customers that were surplus to domestic requirements and their customers have exported those logs unprocessed.[108]

To accommodate any short-term imbalances, according to VicForests' submission, temporary solutions are made to operational activities, including limiting the production of pulpwood.[109] According to VicForests, when 'short-term imbalances extend over time'. VicForests will also 'rebalance' the system by selling additional or different products, sourcing additional or different contractors or changing the forest type mix by harvesting alternative coupes'.[110] The Committee heard that VicForests has attempted to match supplies with the needs of industry and monitors wood supplies to this effect.

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104 VicForests, 'How we sell wood', <www.vicforests.com.au/sales-supply/how-we-sell-wood>.

105 Ibid.

106 Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. x.

107 VicForests, *Submission*, p. 5.

108 Ibid., p. 6.

109 Ibid., p. 9.

110 Ibid.

3.2.2 Handling of disputes, complaints and investigations

VicForests' submission to the Inquiry states that over the course of 10 years in operation, the corporation has undergone three formal disputes: one of which was about log supply, log quality and customer payments; another dispute concerning the mechanisms and communication involved in an outcome where a customer's contract with VicForests had expired with no further wood being sold to the customer; and a third dispute regarding pricing mechanisms within the contract and how these mechanisms were being applied.[111]

At a public hearing in Melbourne, Mr Vince Hurley Chief Executive Officer of Australian Sustainable Hardwoods spoke positively of VicForests' salespersons. However, he stated:

> In negotiating contracts, they can be very difficult to deal with. In recognising problems and rectifying problems, they can be very difficult to deal with.[112]

During the Inquiry, the Committee also heard from Mr Richard Bolt, Secretary for the Department of Economic Development, Jobs, Transport and Resources. The department has responsibilities under the Public Administration Act to ensure that VicForests comply with all of their commercial responsibilities. According to Mr Bolt, the department has not received evidence of any 'systemic' failings on the part of VicForests, which would 'warrant any particular action by the Minister for Agriculture'.[113]

The Committee considers that VicForests' role remains important. However, the Committee is of the view that VicForests and the State Government needs to make available improved information and advice to industry so that industry is aware in advance of the impact of forecasted wood supply levels. In addition, as was discussed in Chapter Two, further oversight of VicForests' operations is necessary to ensure that businesses receive agreed upon wood supply, as well as appropriate and timely advice regarding future resources.

3.3 Business and customers – the effect of supply issues

During the Inquiry, industry representatives frequently highlighted the need for immediate and long-term security of timber supply. Mr Johnston, Chief Executive Officer of the Victorian Association of Forest Industries, stated at a public hearing in Melbourne:

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111 Ibid., p. 24.

112 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 14.

113 Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources,, *Transcript of evidence*, 17 July 2017, p. 43.

> The challenges are great, and part of the challenge for the industry at the moment is that the time has come to make investments in the next generation of machinery and capital and that sort of stuff, and it is very difficult to make those business decisions in an environment where the future is so clouded.[114]

The Committee heard that insecure wood supplies in the immediate and long term translated to the inability of Victorian timber businesses to invest in their operations and plan for their futures.

At a public hearing in Melbourne, Mr Clinton Tilley, Chief Executive Officer of the Hermal Group described the 'long cash flow cycles' in the timber industry, which requires careful planning and greater investment upfront in the industry:

> We have a 540-day/550-day cash conversion cycle — from the day we get the log to the day we get paid for our finished product is 550 days. Your average manufacturing business mostly runs on 60 to 90 in Australia, so you are talking about an enormous amount of capital that has to be provided to these businesses.[115]

The Committee also heard from Radial Timber Australia, a company that mills and sells Victorian hardwoods using innovative radial sawing technology to process its timber logs. Radial Timber Australia relies on durable hardwoods. According to Mr Chris McEvoy, Managing Director of Radial Timber Australia, VicForests' role remained important because of the higher volume of species-specific supply that it could provide local businesses.

At a public hearing in Melbourne, Mr McEvoy stated that wood supplies from private contractors alone would have been insufficient for Radial Timber Australia. There were also significant challenges for businesses looking to harvest their own wood:

> The only thing we could possibly do is look for private land where we could get a harvesting licence, which is quite difficult through councils to be able to get, and have a forestry plan and so on, but it would not be the species we want, so we would have to completely change our business model, and then we would be competing with other commodity products, which is not what we want to do.[116]

According to Mr McEvoy, three years ago, Radial Timber Australia had applied to VicForests for a 10-year specifies-specific licence. This agreement increased their annual intake from a small 4,000 cubic metres to 12,000 cubic metres a year in durable Victorian hardwood, which ensured they could make future investments to their business.[117] Throughout the Inquiry, the Committee heard that security and certainty of supply was vital for the industry to invest and plan for their futures.

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114 Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries, *Transcript of evidence*, 9 August 2017, p. 9.

115 Mr Clinton Tilley, Chief Executive Officer, Hermal Group, *Transcript of evidence*, 30 May 2017, p. 24.

116 Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 9.

117 Ibid., p. 2.

3.4 Achieving balance between industry and environmental needs

The Committee was keen to hear of alternatives that would ensure industry confidence in wood supply and environmentally sustainable development of the State's forests, particularly in light of the projected decline in wood supply from state forests, described by both VicForests and environmental groups during the Inquiry.

3.4.1 Transition to plantations

Several stakeholders in the Inquiry discussed the need to transition to plantations for both high-grade and low-grade wood supplies. The Committee heard that the transition would take time and that it would require government policy to assist industry to make the transition.

According to Ms Young, Campaign Manager of the Wilderness Society Victoria, transitioning to plantation-derived wood supply would ensure security of supply and protection to state forests and wildlife. At a public hearing in Melbourne, Ms Young stated:

> Governments also need to properly invest in the plantation resource, and the amount that was provided in the recent state budget is obviously welcome... trees take time to grow, and the industry is in the unfortunate situation now of having logged out the native forest resource and finding itself short on resource, but proper investment in plantation establishment will be critical for creating a viable and vibrant Victorian wood products industry if that is something that we genuinely want to pursue.[118]

The Committee heard that Radial Timber Australia had invested in a plantation to ensure sustainable supplies for Radial Timber in the long term. While deriving high-grade durable hardwood from VicForests as an initial investment, Radial Timber Australia has established a plantation of 1,500 hectares, which will provide durable hardwood in the long term to the business. As Mr McEvoy explained at a public hearing in Melbourne, it is projected that Radial Timber's needs will be sustained by the plantation in the long term:

> The surprising thing is 12 000 cubic metres is like hundreds of truckloads. It sounds like a fair bit, but in actual trees it is only about 100 to 200 hectares per year, so it is not very much. Like I said, 1500 hectares is about a 30-year supply without putting another tree back in the ground. So once you have got 1500 from a mill our size, it can be sustainable. The oldest ones you can harvest and then you can plant, and by the time you get to the end of them, those should be big enough to harvest again.[119]

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118 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 34.

119 Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 9.

The Committee was concerned about the time that would be required for plantations to become a viable wood source industry and heard that Radial Timber Australia's plantation would take 10 to 15 years to mature.[120] In their evidence to the Inquiry, Ms Danya Jacobs, Lawyer at Environmental Justice Australia, noted that a large plantation is already in operation in the State. At a public hearing in Melbourne, Ms Jacobs stated:

> There is already a very large plantation timber resource in the west of the state. In fact Portland is now our biggest export woodchip centre, in western Victoria. The forest industry more broadly beyond native forests is already shifting into plantations, and that resource is already in the ground. There are already plantations that are available.[121]

Ms Jacobs further noted that major businesses in the industry do not require species-specific high grade timber, particularly given that paper production requires pulplog. She noted that presently, high-value products including finishing and furniture account for approximately seven per cent of the wood, which is harvested from the State's forests and much of the present wood supply to industry could be replaced by plantation timber.[122]

According to Environmental Justice Australia, Queensland had transitioned its forestry industry to 'a well-balanced model, focussed on plantation supply' during the 1990s. Some of the other features of the Queensland model included: conserving old growth forests, conserving areas of high value fauna and habitat, and investment in new jobs in national park management.[123] Furthermore, they highlighted that New Zealand had also transitioned to a 'successful forestry industry' by protecting native forests from logging and enabling a strong tourism sector.[124]

3.4.2 Concerns about plantations

The Committee also heard concerns regarding any proposal to fully transition to plantation resources. According to VicForests, the industry cannot rely on timber from plantations alone because 'this wood does not develop the same size, strength and visual properties' as timber from native forests.[125] VicForests has also noted that a plantation-only strategy, does not acknowledge that plantations in Victoria are located mainly in the west of the State, 'while timber from native forests is currently processed... in Victoria's east'.[126]

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120 Ibid., p. 2.

121 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 17.

122 Ibid., p. 19.

123 Environmental Justice Australia, *Response to questions taken on notice*, 8 August 2017.

124 Ibid.; See also, Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 29.

125 VicForests, 'Plantation Forestry Management', viewed 18 September 2017, <www.vicforests.com.au/supplying-our-industry-1/plantations-and-native-forest/plantation-forestry-management>.

126 Ibid.

Throughout the Inquiry, the Committee was concerned about jobs and industry affected by the closure of long standing sawmills and loss of forestry jobs where VicForests' operations coalesce in the eastern part of the State. The Committee is aware that there is investment into plantation timber in the east of the State and is of the view that this investment will be important for the industry in the future.

At a public hearing in Melbourne, Mr Johnston, Chief Executive Officer of the Victorian Association of Forest Industries, stated that plantations would 'increase the basket of fibre more broadly to industry to produce products'. However, Mr Johnston pointed out that some mills set up to saw hardwood 'cannot, as you say, change that overnight'.[127]

The Forestry Industry Taskforce members agreed that government investment into plantations is needed given the current lack of available plantation sawlog resource volume. They also recognised that the scope and scale of the future mix of supply would need to be determined according to the needs of industry stakeholders:

> While scope and scale is yet to be agreed, the Core Group agrees that a mix of public and private native forest, existing plantations and agroforestry, recycled fibre, and the development of new plantations and agroforestry will be elements for future wood and fibre supply. The Taskforce will consider recommendations for change in the existing mix of wood and fibre supply.[128]

While the Committee heard that other jurisdictions have invested in plantations to produce the wood their industries require, in a sustainable manner, the Committee remains concerned about plantations and the effect of a wholesale transition on the industry and the environment. The Committee is further concerned that any potential transition would need to be carefully planned, managed and supported by government to minimise adverse effects to industry, communities and the environment. The Committee is of the view that further investigation and planning would be necessary to support any plans to support industry to fully transition to plantations for supplies into the future.

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127 Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries, *Transcript of evidence*, 9 August 2017, p. 8.

128 Forest Industry Taskforce, 'Statement of Intent', viewed 25 September 2017, <forestindustrytaskforce.com.au/?page_id=435>.

4 Conclusion – issues for the future

During the Inquiry, a number of concerns were raised before the Committee relating to VicForests' operations and oversight of VicForests, particularly in relation to the Government's planned purchase of the Heyfield Mill.

This Chapter examines the sale of the Heyfield Mill, which occurred during the Inquiry and discusses ongoing issues in the industry raised by the Committee and the Inquiry's stakeholders.

4.1 Government purchase of the Heyfield Mill

As noted earlier in this Report (see Chapter Three), a catalyst for the Inquiry was the reduction in VicForests' wood supply. It was that reduction which Australian Sustainable Hardwoods told the Committee eventually led to them announcing cuts to jobs at the Heyfield Mill, earlier in the year.

In July 2017, several media outlets reported the State Government's plan to purchase the Heyfield Mill to save mill workers' jobs and sustain the future of Heyfield and other local communities.

By September 2017, the media reported that the sale was complete.[129] The Hermal Group had sold Australian Sustainable Hardwoods to the Government and to five existing shareholders – one of which was Mr Vince Hurley, Chief Executive Officer of Australian Sustainable Hardwoods and a witness to this Inquiry.[130] In a recent news report, Government representatives stated that the Government will have no direct input into the daily operations of Heyfield Mill. Instead, a board will be appointed and Australian Sustainable Hardwoods will continue to manage the mill. Government representatives refused to provide details of the cost of the mill to the media, but it was estimated by industry speculators to be above $50 million.[131]

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129 Richard Willingham, 'Heyfield Timber Mill to be Saved as Victorian Government Signs Deal to Buy Struggling Business', *ABC News*, 15 September 2017, viewed <www.abc.net.au/news/2017-09-15/deal-made-on-heyfield-timber-mill/8948736>; Kath Sullivan, 'Heyfield Timber Mill: Victorian Government Completes Purchase', *The Weekly Times*, 15 September 2017, viewed <www.weeklytimesnow.com.au/news/national/heyfield-timber-mill-victorian-government-completes-purchase/news-story/28ae2e7f0ee728eabd2748a17db4ed01>.

130 Vince Hurley, Ian Jones, Brett Bould, Garry Henthorn and Daniel Wright were named as the five shareholders in the recent purchase of the mill. See, Kath Sullivan, 'Heyfield Logs On', *The Weekly Times*, 20 September 2017, viewed <www.weeklytimesnow.com.au/news/national/heyfield-timber-mill-logs-on/news-story/123b808fe39f9f02594df6ebad7f663d>.

131 Ibid.

4.1.1 Ongoing issues for the mill and its workers

During the Inquiry, the Committee was keen to confirm whether the State Government had purchased the mill and the conditions associated with its purchase, given the centrality of the issue to the Inquiry.

During the Inquiry, the Committee heard of concerns regarding the mill's future viability based on VicForests' offer of 80,000 cubic metres of wood, per annum, for three years.

Early in the Inquiry, the Committee heard from Mr Hurley, Chief Executive Officer of Australian Sustainable Hardwoods, who stated that for the Heyfield Mill to remain viable on two shifts 'you really cannot drop below 130,000 cubic metres' per annum.[132] Mr Hurley told the Committee that VicForests' supply offer had jeopardised half the number of jobs at the mill:

> Since we have been talking to the government we have done some modelling on employment at 80 000 cubic metres, so the 230 direct employees now will drop to 120 direct employees. That would be 110 positions that would not be available in the mill at 80 000 cubic metres.[133]

Mr Clinton Tilley, Chief Executive Officer of the Hermal Group, which is a major shareholder of Australian Sustainable Hardwoods, stated that a three-year contract meant ongoing uncertainty for the mill. He told the Committee that it also meant continued investment into equipment, required for the business to survive, would become uneconomical:

> The other issue that we have as well is that even if we were to accept it and wanted to change, the transition time in terms of equipment is three years, which is only the period for which supply has been offered, so economically it makes no sense whatsoever.[134]

In purchasing the Heyfield Mill, the Government stated that its aims have been to save timber and forestry jobs, and sustain local communities.-

During the Inquiry, the Committee also raised concerns about the Government becoming a buyer of wood and having responsibility for oversight of VicForests' operations. The Committee heard from Mr Richard Bolt, Secretary for the Department of Economic Development, Jobs, Transport and Resources, which is responsible under the *Public Administration Act 2004* for overseeing VicForests' compliance with its commercial responsibilities. Mr Bolt responded to the Committee's question regarding a potential conflict of interest by stating:

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132 Mr Vince Hurley, Chief Executive Officer, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 20.

133 Ibid., p. 21.

134 Mr Clinton Tilley, Chief Executive Officer, Hermal Group, *Transcript of evidence*, 30 May 2017, p. 24.

> But should it [the sale] conclude, then there is no intrinsic difficulty in separating the governance of a state-owned mill from a state-owned timber supplier, being VicForests. VicForests practice has been to have open auctions of timber, and I am expecting that any private participants in such an auction would be seeking assurances that every bid will be treated on its merits.[135]

He added:

> I see no intrinsic difficulty in managing such a dual role that the state would have, because we are a large government and we are capable of separating different functions like that so that they act with competitive neutrality.[136]

The estimated cost of purchasing the mill, which will likely sustain half the number of jobs, has been of concern to the Committee. The Committee recognises the State Government's provision of support to workers at Heyfield Mill. The media reported that 24 voluntary redundancies were offered to staff at the Heyfield Mill in September 2017.[137] The Committee also recognises the importance of retaining jobs and the significant challenges that remain ahead for Heyfield Mill, and for the entire industry. The Committee believes that the Government should continue to invest in the development of a future industry plan (discussed further below) to manage the significant challenges that the industry and timber-dependent communities face. A media release from the Minister for Industry and Employment at the time of the purchase indicates that the Government is investing into plantation timber in Gippsland.[138]

The Committee is also of the view that the Government needs to ensure that VicForests' timber sales will continue to be conducted in a fair and competitive manner. As VicForests' Order in Council indicates, the corporation 'must be commercially focused and maximise long-term returns to the state' and 'operate consistently with policy and priorities' including and particularly within environmental constraints.[139]

4.2 The future of the industry – jobs and sustainability

During the Inquiry, the Committee repeatedly heard that the industry requires innovation and investment in new technology if existing businesses are to meet the challenges of uncertainty of supply, the necessity of turning to plantation supplies and new markets that favour products which come with high standards

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135 Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources,, *Transcript of evidence*, 17 July 2017, p. 47.

136 Ibid.

137 Kath Sullivan, 'Heyfield Logs On', *The Weekly Times*, 20 September 2017, viewed <www.weeklytimesnow.com.au/news/national/heyfield-timber-mill-logs-on/news-story/123b808fe39f9f02594df6ebad7f663d>.

138 Member for Eastern Victoria, Ms Harriet Shing MLC cited in Minister for Industry and Employment (Victoria) Hon Wade Noonan MP, *Heyfield Timber Mill Purchase Saves Locals Jobs*, media release, Melbourne, 15 September 2017.

139 Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources,, *Transcript of evidence*, 17 July 2017, p. 43.

of environmental certification.[140] Industry representatives indicated that they are willing to innovate and have their own plans for their businesses. The Committee believes that government assistance for innovation is vital.

At a public hearing in Melbourne, the Committee heard that new technology has led to greater efficiency at Radial Timber Australia. Mr Chris McEvoy, Owner and Managing Director of Radial Timber Australia, told the Committee that his business has developed Australian Patented Technology. Prior to establishing the business, Mr McEvoy had been a scientist with the Commonwealth Scientific and Industrial Research Organisation (CSIRO).[141]

According to Mr McEvoy, Radial Timber Australia is the only commercial sawmill in the world that radially saws timber.[142] Radial sawing has meant less wastage on the mill floor and has other benefits, as Mr McEvoy stated:

> Basically we as a radial sawing company completely put the plan up for cutting up timber. Most sawmills get a log and cut it up into a square cant; we get a log and cut it up like a cake or a pizza, so we are cutting it into wedges and then we cut those wedges into boards.
>
> What that gives us is four things. It gives us a much higher yield. We get more timber from fewer trees. It is ideally suited to plantation timber because plantation timber... has got high-growth stresses, which means as soon as you put a saw in it it wants to bow and twist and spring... What we do is we work with the natural growth stresses in a log... It relieves all those growth stresses into the wedges, and then we cut those wedges into boards. We get a higher recovery and a much more stable product... Basically we are putting this timber, like I said, into many, many buildings mainly in Victoria, but there is no reason why it cannot be Australia or overseas as well.[143]

Mr McEvoy told the Committee that the timber industry 'needs to think long term' and that it needs to 'be innovative and look at changing markets'.[144] He further observed that a key issue has been that:

> A lot of sawmills have got ageing technology and they have got ageing equipment that was fine for old-growth forest and big logs, but as regrowth timber gets smaller and as plantations have got a different set of problems, that is where the industry needs to innovate... There are a number of alternatives and alternative products, and that is where I think the industry needs to go.[145]

The Committee heard from other witnesses that innovation is challenging because retooling and the introduction of new technology requires investment and planning. Responding to the Committee's questions about Heyfield Mill,

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140 Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017. See also, Tom Arup, 'Forestry Industry Out on a Limb', *Sydney Morning Herald*, 9 August 2014, viewed <www.smh.com.au/business/forestry-industry-out-on-a-limb-20140807-101c3o.html>.

141 Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 2.

142 Ibid.

143 Ibid., p. 3.

144 Ibid., p. 2.

145 Ibid., p. 3.

Mr James Lantry, Manager of Special Projects at the Hermal Group, described the necessary changes for Heyfield Mill to process smaller logs. He also noted the impact that the processing of smaller logs would have on mill jobs, stating:

> There are probably two processes of change. The first is that smaller logs need a fundamental change to the green mill, which would likely involve the construction of a new green mill to be able to handle the smaller log size. The benefit of actually doing that upgrade is that as plantation timber comes online you are actually able to then process that timber, because you need a different saw process for those timbers. To make further and other viability changes to the mill at lower volumes you have to change the dry mill processes and do a significant amount of automation in a number of the dry mill processes. So you have got two areas of change: one is about the smaller log end and being able to utilise the smaller logs and being able to create and generate a viable business through that process, and then the second component is what you actually do in the dry mill. That is probably the biggest issue. The bottom line is you have to cut the number of staff. You have to automate that business.[146]

The Committee heard that despite these challenges that many businesses face, the future of the industry is likely to mean such changes are necessary.

Mr Tilley, Chief Executive Officer of the Hermal Group, told the Committee that it had planned to move 'parts of the business and parts of the plant and equipment' from Heyfield to Tasmania where there is security of supply from plantations, due to the reduced wood supply from VicForests. As Mr Tilley explained at a public hearing:

> For one there is over 300 000 cubic metres of resource. It is plantation resource, and given it was a managed investment scheme problem, it has grown well beyond where it should, and there are opportunities to take that resource and use it in a different methodology, particularly as we move towards new forms of construction method under the Building Code of Australia which allow for low embodied carbon buildings from renewable carbon resources.[147]

The Committee heard that Victorian businesses need support to innovate, given ongoing uncertainty over future supplies.[148] While Radial Timber Australia is a 'boutique' business, demand for its appearance grade products – which showcase the unique beauty of Australian hardwoods – has been high. Mr McEvoy told the Committee:

> We are not going to be able to employ the number of employees lost at Heyfield or Morwell or anywhere else, but if there were a number of smart new businesses cropping up in the timber industry, it could go a long way... we [Radial Timber Australia] are flat out just keeping up with Melbourne...[149]

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146 Mr James Lantry, Manager, Special Projects, Hermal Group, Australian Sustainable Hardwoods, *Transcript of evidence*, 30 May 2017, p. 21.

147 Mr Clinton Tilley, Chief Executive Officer, Hermal Group, *Transcript of evidence*, 30 May 2017, p. 26.

148 Mr Chris McEvoy, Owner and Managing Director, Radial Timber Australia, *Transcript of evidence*, 30 May 2017, p. 5.

149 Ibid., p. 4.

The Committee recognises that there is a need for a future industry plan to tackle these current and ongoing issues, particularly given that the industry is already in a process of rapid change. The Committee heard of a pressing need to manage these challenges and a critical need to support existing workers in this industry.

4.2.1 The significance of forestry jobs in state forests and plantations to communities

Throughout the Inquiry, the Committee heard of the significance of forestry jobs in Victoria.

Economic and employment returns from the industry

According to the Victorian Association of Forest Industries website, the industry is a significant employer in both metropolitan and rural areas. A recent Industry Review produced by the Victorian Association of Forest Industries indicated that the industry:

- Generates $7 billion in sales and service income annually
- Employs 21,000 direct employees
- Direct employment in the forest and wood products industry represents approximately 1 per cent of the total Victorian workforce
- Also supports 40,000 to 50,000 indirect employees
- Supports 320 and 380 businesses operating locally
- And that there are 13,000 people who live and are employed in the suburbs of Melbourne that work in manufacturing such as cabinetry, framing and furniture making.[150]

Similarly, Victoria's State of the Forests Report, indicated that forests-related businesses in Victoria contributed towards Australia's income, generated by wood products. According to the most recent State of the Forests Report (2013):

> Forest related businesses employed more than 21,000 people and produced 25 per cent of Australia's wood products (value $450 million, 2010-11) while supporting communities across Victoria.[151]

Reductions in forestry jobs for industry-dependent regional communities

The recent State of the Forests Report also indicated that forestry jobs continued to be significant to regional communities in Victoria.

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150 Victorian Association of Forest Industries, *Industry Review (Report)*, 2016, p. 19. Available at < www.vafi.org.au/wp-content/uploads/2016/12/161031-VAFI025-Victorian-Forest-Industry-Review-2016-FINAL.pdf>

151 Noted under the heading 'Highlights of the 2013 State of the Forests Report'. See, Department of Environment Land Water and Planning, 'Forest Management', viewed 1 October 2017, <www.forestsandreserves.vic.gov.au/forest-management/state-of-the-forests-report>.

The Report provided the department's most recent data on the changes in the percentage of forest industry employment in Victorian areas with high regional forest industry employment dependence (see below).

Figure 4.1 **Changes in % of forest industry employment 2006 to 2011 (in Victorian areas with high regional forest industry employment dependence).**

Statistical Local Area	% forest industry employment 2006[A]	% change in forest industry employment, 2001-2006	% forest industry employment 2011[B]	% change in forest industry employment, 2006-2011
Alpine West	13	-16.8	8.8	-33
Colac-Otway-Colac	4.5	-16.2	4.8	6
East Gippsland-Bal	3.9	-29.6	3.1	-21
East Gippsland-Orbost	5.8	-50.4	4.4	-25
Glenelg-Heywood	5.4	-47.2	2.0	-63
Glenelg-North	6.0	-9.4	2.1	-65
Latrobe-Traralgon	6.7	-11.5	5.1	-24
Murrindindi-East	4.1	-20.7	1.8	-57
Wellington-Maffra	3.9	n/a	3.3	-16

[A] Source: Victoria State of the Forests Report 2008

[B] Source: 2006 and 2011 Census of Population and Housing - Level 3 Industry descriptors - Forestry and Logging, Log Sawmilling and Timber Dressing, Other Wood Product Manufacturing, Pulp, Paper and Converted Paper Product Manufacturing, Pulp, Paper and Paperboard Manufacturing.

Source: Department of Environment and Primary Industries 2014, 'Indicator 6.5c', *Victoria's State of the Forests Report* 2013, Department of Environment and Primary Industries, Victoria, Australia, p.177.

According to the data, with few exceptions, all industry-dependent regional communities in Victoria experienced a reduction in the percentage of forest industry employment.

According to the Report:

> Between 2001 and 2006, areas shown in Table 1 experienced, on average, a 25% reduction in the percentage of forest industry employment. The average reduction in percentage of forest industry employment has continued to fall between 2006 and 2011, by an average of 34%.[152]

Victoria's State of the Forests Report (2013) also provides information that indicates the level of socio-economic vulnerability experienced by industry-dependent regional communities in Victoria. These inferences, according to the Report, are drawn from data from the previous State of the Forests Report, as well as data about the level of economic diversity in an area and trends in wages rates.

Based on Victoria's Forestry Industries report, which analysed the adaptive capacity (a component of resilience) of 54 industry-dependent towns in Victoria, Victoria's State of the Forests Report (2013) noted that towns with higher dependence on the forest industry were more likely to have low adaptive capacity than those with low dependence on the forest industry.

152 'Indicator 6.5c' in ibid.

This section of the Report's analysis concluded that, further work would be required to identify the reasons why towns with higher dependence on the forest industry are more likely than others to have low adaptive capacity.[153] However, impact of job losses on towns that have higher dependence on the forest industry was indicated in Victoria's State of the Forests Report (2013) and is an area that clearly requires further government support and initiatives.

Increase in the proportion of industry employment in plantation forestry and timber

While forestry industry jobs had reduced over the years, Victoria's State of the Forests Report (2013) indicated that industry employment in plantations is promising.

Estimations of the proportions of employment by forest type for jobs generated in the growing services to forestry and primary processing sectors were detailed in the Report. This data was drawn from a study focusing on the socio-economic characteristics of Victoria's forest industries, which was commissioned by the Department of Environment and Primary Industries (DEPI) in 2009 and updated in 2012. The study used data from a 2012 forest industry survey and from the Australian Bureau of Statistics.

This study by researchers Jacki Schirmer, Melissa Mylek and Julian Morison on the socio-economic characteristics of Victoria's forest industries provided detail about the number of jobs in the industry, and described the number of jobs in each forest type in 2012.

Schirmer, Mylek and Morison provided the following figures of jobs based on the business activity type in the industry:

- In the growing sector, there were 385 workers or 1.8 per cent of the total forest industry employment in 2012;
- the forestry support services sector, (1,973 workers or 9.3 per cent of the total forest industry);
- the primary processing sector, (4,478 workers or 21.1 per cent of the total forest industry);
- and the secondary processing sector (14,384 workers or 67.8 per cent of the total industry workforce).[154]

It was not possible to identify jobs according to forest type in the secondary processing sector but the study provided information on the number of employees in the growing, forestry support and primary processing sectors according to forest/ plantation type.

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153 'Indicator 6.5c' in ibid.

154 Dr Jacki Schirmer; Melinda Mylek; Dr Julian Morison, *Socio-economic characteristics of Victoria's forestry industries, 2009-2012 - Executive Summary*, Victorian Government, Melbourne, 2013, pp. 5-6.

According to the study, in 2012, it is estimated:

- 12.8 per cent of employees (820 workers) worked in the hardwood plantation sector compared to 13.5 per cent (1,186 workers) in 2009
- 42.6 per cent (2,913 workers) worked in the softwood plantation sector, compared to 55 per cent (4,837 workers) in 2009
- 33.4 per cent (2,284 workers) worked in the native forest sector, compared to 31.5 per cent (2,770 workers) in 2009
- 11.2 per cent (766 workers) were in jobs where it was not possible to allocate their activities to a forest type (for example, they were consultants who spent time working across all forest types).[155]

These figures were affected by a range of factors.

According to Schirmer, Mylek and Morison, the hardwood plantation sector is 'relatively young' and while harvest volumes from hardwood plantations were increasing, they had not yet peaked. In addition, during the period of their 2012 survey, some large areas of plantation were in receivership with little harvest activity occurring.[156]

In terms of the softwood plantation sector, they found that it continued to generate the highest proportion of jobs in the forest industries, but employment had declined between 2009 and 2012 likely due to a downturn in housing and the construction sector.[157]

In terms of the native forest sector, their study found that overall, job numbers had declined in the native forest sector with closures of sawmills and reduction in harvest and haulage jobs.[158]

They concluded that there had been a significant decline overall, in employment in the State's forest industries between 2009 and 2012 due to a range of factors including, the high value of the Australian dollar and accompanying impact on the market for Australian and imported wood products. There was also reduced demand for structural timber in the construction sector for the years between 2009 and 2012, and they noted the effects of bushfires on timber supply.[159]

Victoria's State of the Forests Report (2013) illustrated employment by forest type in the industry in 2012 (see, Figure 4.2), based on the study.

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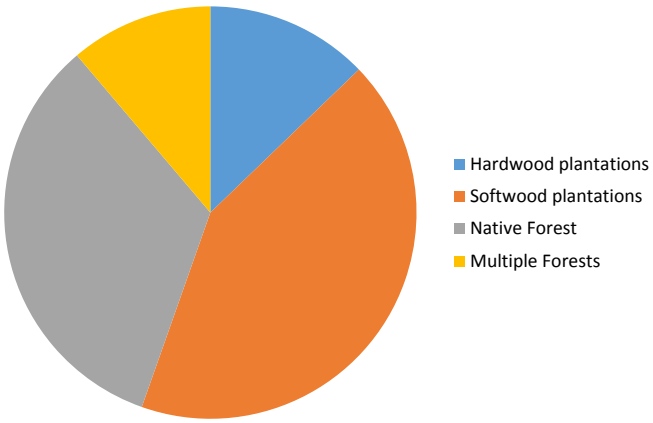
155 Ibid., p. 6.
156 Ibid., p. 13.
157 Ibid.
158 Ibid.
159 Ibid.

Figure 4.2 Employment by Forest Type in Victoria during 2012



Source: Schirmer and Mylek (2013) cited in Department of Environment and Primary Industries 2014 (DEPI), *Victoria's State of the Forests Report* 2013, DEPI, Victoria, Australia, p. 172, 'Indicator 6.5a'. See also, Dr Jacki Schirmer; Melinda Mylek; Dr Julian Morison, *Socio-economic characteristics of Victoria's forestry industries, 2009-2012 - Executive Summary*, Victorian Government, Melbourne, 2013.

Based on the Forest Industry Survey, Schirmer, Mylek and Morison had estimated that:

- 12.8 per cent of employees worked in the hardwood plantation sector
- 42.6 per cent of employees worked in the softwood plantation sector
- 33.4 per cent worked in the native forest sector
- 11.2 per cent worked in jobs where it was not possible to allocate their activities to a particular forest or plantation type (for example, consultants who spend time working across all industry areas). This category also included employees in firms that used timber imported from other states in their processing work and where the log type used by a processor was unclear.[160]

According to Victoria's State of the Forests Report (2013), overall the 2012, Forest Industry Survey had identified the following trends:

- The Forest Industry Survey identified 6,836 jobs in the growing, services to forestry and primary processing sectors in 2012
- Softwood plantations employ the largest proportion of workers in these sectors (43 per cent)
- Hardwood plantation harvest volumes should continue to increase in coming years, which is expected to generate additional employment, although the market for hardwood plantation products has been affected by the global financial crisis and this may slow the growth in employment.[161]

160 Dr Jacki Schirmer; Melinda Mylek; Dr Julian Morison, *Socio-economic characteristics of Victoria's forestry industries, 2009-2012 - Executive Summary*, Victorian Government, Melbourne, 2013, p. 6.

161 Discussed in 'Indicator 6.5a: Direct and indirect employment in the forest sector and forest sector employment as a proportion of total employment', in Department of Environment and Primary Industries, *Victoria's State of the Forests Report 2013*, Victorian Government, Melbourne, 2014, pp. 171-2.

Annual harvest levels for hardwood (native and plantation) as well as softwood (non-specified forest type) are indicated in the Victorian Association of Forest Industries' Industry Reviews. In their recent Industry Review (2016), the Victorian Association of Forest Industries reported that the volume of harvested hardwood from plantations was significantly higher (at 2,824,000 cubic metres) in 2015-16 compared to the volume of hardwood from native forest at (1,299,000 cubic metres).[162] The volume of harvested hardwood from native forest had also decreased over the past year. Harvested softwoods were not disaggregated between native and plantation forests in the review.[163]

The Committee is firmly of the view that securing the future of the industry for jobs and communities is important. The Committee has made its recommendations to this effect (see the conclusion of this Chapter).

4.2.2 Environmental concerns and alternative uses for state forests

During the Inquiry, the Committee received evidence from the Wilderness Society Victoria and Environmental Justice Australia that logging continued to have a detrimental impact on the environment and upon threatened species in state forests. Both groups argued that there is a need to move out of logging state forests not only to conserve environmental values, but also for economic reasons. At a public hearing in Melbourne, Ms Amelia Young, Campaign Manager for the Wilderness Society Victoria presented evidence, which indicated that there are greater economic, environmental and social benefits that can be derived from other industries that complement each other in the forest.

According to Ms Young, analysis conducted using the United Nations' System of Environment and Economic Accounting (SEEA) found that logging is the least generative of incomes compared to industries such as, tourism, water and agriculture in native forests.[164] She stated:

> It is our view that the forest estate currently subject to VicForests logging operations should instead be managed for other values, which would enhance recreation, derive and manifest economic, environmental and social benefit from environmental and ecosystem services... tourism, agriculture, water and the fledgling and looming carbon market.[165]

Representatives of Environmental Justice Australia similarly described the need to transition to new industries such as the carbon market.[166] According to the Wilderness Society of Victoria and Environmental Justice Australia, as well as other environmental advocates, harvesting wood from state forests has come at a significant cost to the environment and native species. It also denies the full development of other types of industry and community uses.

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162 See, Victorian Association of Forest Industries, *Industry Review (Report)*, 2016. P. 5.

163 See, ibid. P. 5.

164 Wilderness Society Victoria, *Submission*, p. 6.

165 Ms Amelia Young, Campaign Manager Victoria, The Wilderness Society Victoria, *Transcript of evidence*, 17 July 2017, p. 27.

166 Ms Danya Jacobs, Lawyer, Environmental Justice Australia, *Transcript of evidence*, 17 July 2017, p. 17. The carbon market has been created from the trading of carbon emission allowances.

In light of the significant costs associated with sustaining the industry in its present condition, the Committee is of the view that there is a need to consider other industries in state forests, which meet environmental obligations and develop jobs and skills in the community.

4.2.3 Forest Industry Taskforce

The Committee heard from three members of the Taskforce who appeared before the Committee in their respective industry roles: Mr Vince Hurley, Chief Executive Officer of Australian Sustainable Hardwoods; Mr Tim Johnston, Chief Executive Officer of the Victorian Association of Forest Industries and Ms Amelia Young, Campaign Manager for the Wilderness Society Victoria.[167]

In implementing its 2014 election policy *Our Environment, Our Future*, the State Government established a Forest Industry Taskforce, made up of key stakeholders across industry, the union movement and forest conservation groups.[168] The Forest Industry Taskforce provides a forum for major stakeholders to reach common ground and develop a set of long term recommendations and proposals to Government about future issues facing the timber and forestry industry: job protection, economic activity and the protection of native flora and fauna including threatened species.[169]

The Taskforce has found the challenges faced by the industry to be, 'complex, interdependent and seemingly intractable problems' that 'cannot be solved individually, and must be considered together.[170] The Committee recognises the importance of having a Taskforce that has gathered together key stakeholders for the development of long-term and durable solutions.

The Committee is hopeful that the Forest Industry Taskforce can fulfil its Statement of Intent and provide a much needed road map in the *Future Industry Plan*, which is in the pipeline. The plan aims to ensure:

- guaranteed improved outcomes for biodiversity and control of threats to conservation values that will provide secure conservation outcomes, including through establishment of new parks and reserves in eastern Victoria; and
- guaranteed wood and fibre supply that will provide secure economic outcomes for the short, medium and long-term, including through a mix of sources and designated areas.[171]

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167 See, Forest Industry Taskforce, 'Taskforce Members', viewed 22 September 2017, <forestindustrytaskforce.com.au/?page_id=22>. The Chair of the Taskforce was unavailable to appear before the Committee.

168 Victorian Labor 2014 *Our Environment, Our Future* cited in Victorian Environmental Assessment Council, *Fibre and Wood Supply: Assessment Report*, Victorian Environmental Assessment Council, the State of Victoria, Melbourne, 2017, p. 1.

169 Forest Industry Taskforce, 'Information', viewed 27 September 2017, <forestindustrytaskforce.com/wp-content/uploads/2016/11/FIT_A4-INFO-SHEET.pdf>.

170 Forest Industry Taskforce, 'Statement of Intent', viewed 25 September 2017, <forestindustrytaskforce.com.au/?page_id=435>.

171 Ibid.

In light of the ongoing concerns about the industry's future, sustainable logging of wood from state forests and the need to protect the environment and native species, which were raised by both industry representatives and forest conservationists – the Committee believes that VicForests' operations will need to be reconsidered following the Forest Industry Taskforce's recommendations.

The Committee believes that the Taskforce has identified a number of important areas where there are opportunities for change which will contribute to a more sustainable future for industry stakeholders.

(a) The Establishment of New Parks and Reserves;

(b) Threatened Species Protection;

(c) Industry Investment and Growth;

(d) Wood and Fibre Supply Security;

(e) Carbon;

(f) Jobs and Regional Employment; and

(g) Regulatory Revision and Reform.[172]

The Committee believes that the Taskforce has stalled in its provision of recommendations to facilitate these necessary changes. The Taskforce should be galvanised to provide a Future Industry Plan as soon as possible so that forest, fibre and wood products industries and communities have some certainty about their future.

4.3 VicForests' compliance and resource modelling

During the Inquiry, the owners of the Heyfield Mill – Australian Sustainable Hardwoods and the Hermal Group – repeatedly told the Committee that they had not foreseen the reduced timber from VicForests.

In the course of this Inquiry, the Committee focused on VicForests' operations to ascertain why such reductions were not forecasted and managed in light of the case of the Heyfield Mill and to inquire into these facets of VicForests' operations. At a final public hearing in Melbourne, Mr Nathan Trushell, Chief Executive Officer of VicForests described VicForests' role in managing supply levels and contracts with buyers. He stated: 'we try to avoid big shocks... Unfortunately in the last 12 months we have seen a pretty significant shock'.[173] He added, 'it is something we have had to deal with to ensure we minimise disruption right across the industry'.[174]

172 Ibid.

173 Mr Nathan Trushell, Chief Executive Officer, VicForests,, *Transcript of evidence*, 9 August 2017, p. 26.

174 Ibid.

The Committee recognises that VicForests has a difficult task in balancing industry needs with environmental conservation in state forests. However, despite differing objectives and viewpoints, the Inquiry's stakeholders shared a common concern that Victoria's natural forests could be managed more efficiently and effectively by the Government and VicForests.

An example that highlights the need for more efficient and effective management is the State Government and VicForests' legislated supply agreement with Australian Paper. The *Forests (Wood Pulp Agreement) Act (1996)*, commits the Government to supply Australian Paper with pulpwood every year from ash forests within the forest area. A penalty is imposed if resources cannot be supplied from this forest area.

With forest timber resource availability declining due to factors outlined in this Inquiry, the legislated agreement with Australian Paper continues to cost the Government and place pressure on state forests to deliver low-grade timber that could be sourced elsewhere.

Notwithstanding that certainty of supply is an important factor for mill operations, (as discussed in Chapter Three) transparency and accuracy of predictions about supply are essential to understanding the future sustainability of an industry based on natural resources.

More broadly, the Committee heard that uncertainty regarding future wood supply from state forests will require the State Government to develop a robust, long-term plan to ensure that the industry can survive and innovate. The Committee heard that some businesses have already innovated and they provide important insights for creating a viable future for this industry.

The Committee has made a number of recommendations to support its view that the forestry industry would benefit from improved management and accountability from VicForests and more robust planning by the Victorian Government for the long-term transition of the industry.

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.

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.

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.

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.

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.

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.

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.

Appendix 1
Public hearings

Wednesday 9 August 2017 – Legislative Council Committee Room, Parliament House, Spring Street, East Melbourne

Name	Title	Organisation
Mr Tim Johnston	Chief Executive Officer	Victorian Association of Forest Industries
Mr Lee Miezis	Deputy Secretary, Forest Fire and Regions	Department of Environment, Land, Water and Planning
Mr James Todd	Director, Knowledge and Decision Systems, Energy, Environment and Climate Change	
Mr Nathan Trushell	Acting Chief Executive Officer	VicForests
Mr Lachlan Spencer	Acting General Manager	

Monday 17 July 2017 – Legislative Council Committee Room, Parliament House, Spring Street, East Melbourne

Name	Title	Organisation
Mr David Webster	Deputy Secretary	Department of Treasury and Finance
Mr Ben Stewart	Advisor Commercial	
Mr Stephen Canterbury	Assistant Director, Shareholder Advisory Services	
Mr Brendan Sydes	Chief Executive Officer and Lawyer	Environmental Justice Australia
Ms Danya Jacobs	Forest Lawyer	
Ms Amelia Young	Campaign Manager Victoria	The Wilderness Society Victoria
Mr Richard Bolt	Secretary	Department of Economic Development, Jobs, Transport and Resources
Mr Justin Hanney	Head of Employment, Investment and Trade	

Tuesday 30 May 2017 – Meeting Room G1, 55 St Andrews Place, East Melbourne

Name	Title	Organisation
Mr Chris McEvoy	Owner and Managing Director	Radial Timber Australia
Mr Vince Hurley	Chief Executive Officer	Australian Sustainable Hardwoods
Mr James Lantry	Manager Special projects	The Hermal Group
Mr Nathan Trushell	Acting Chief Executive Officer	VicForests
Mr Lachlan Spencer	Acting General Manager, Stakeholders and Planning	

Extract of proceedings

Legislative Council Standing Order 23.27(5) requires the Committee to include in its report all divisions on a question relating to the adoption of the draft report.

All Members have a deliberative vote. In the event of an equality of votes, the Chair also has a casting vote.

The Committee divided on the following questions during consideration of this report. Questions agreed to without division are not recorded in these extracts.

Committee meeting – 18 October 2017

Mr Bourman moved, That the final paragraph in Chapter 1, at 1.4, stand part of the report.

The Committee divided.

Ayes 2	**Noes 5**
Mr Bourman	Ms Dunn
Mr Finn	Mr Gepp
	Mr Leane
	Mr Ondarchie
	Mr O'Sullivan

Question negatived.

Ms Dunn moved, That Recommendation 5 stand part of the Report.

The Committee divided.

Ayes 4	**Noes 3**
Mr Bourman	Mr Gepp
Ms Dunn	Mr Leane
Mr Finn	Mr O'Sullivan
Mr Ondarchie	

Question agreed to.

Mr Leane moved, That Recommendation 6 stand part of the Report.

The Committee divided.

Ayes 6	Noes 1
Mr Bourman	Mr O'Sullivan
Ms Dunn	
Mr Finn	
Mr Gepp	
Mr Leane	
Mr Ondarchie	

Question agreed to.

Mr Leane moved, That Recommendation 8 cited in the previous Chair's Draft of the Report stand part of the Report.

The Committee divided.

Ayes 3	Noes 4
Ms Dunn	Mr Bourman
Mr Gepp	Mr Finn
Mr Leane	Mr Ondarchie
	Mr O'Sullivan

Question negatived.

Minority report

Economy and Infrastructure Committee

Inquiry into VicForests Operations

Minority Report by Samantha Dunn MLC

Introduction

It is my view that to continue to log our native forests is the wrong long term direction for our State. The impact on biodiversity, water supply, carbon emissions and climate change along with diminished opportunities to secure a new economic direction for regional communities are core reasons why native forest logging has no long term future in Victoria. Some of the final recommendations in the majority report include strengthening the oversight and processes of VicForests. I do not disagree with the recommendations; there certainly needs to be significant improvements made to the operation and oversight of VicForests, yet that incorrectly assumes there is a future in native forest logging.

Ultimately the bigger question is how much longer can we justify logging our native forests, considering the opportunity costs to regional economies and the environmental damage that comes with logging.

With regard to the recommendations I am concerned that one of the recommendations was not included in the report. This is discussed further below under Chapter 2 Compliance (2.3.1).

I am also concerned that at no stage was a scientist specialising in the Leadbeater's Possum requested to form part of witness evidence for this inquiry. Much of the discussion around the lack of supply of native forest has been blamed on the Leadbeater's Possum. This is a politically motivated approach to the issue of declining supply of native forest which fails to investigate the core problems.

It is years of overcutting along with large scale successive bushfires across the state that have contributed to the undersupply of native forest. Coupled with the legislative requirements to supply Australian Paper with pulpwood under the *Forests (Wood Pulp Agreement) Act 1996* sees our forest at breaking point in terms of supply.

Throughout this report there is reference to the industry supporting 21,000 jobs (3.1, 4.2.1), however it is worth bearing in mind that only 1,101 of these jobs are in the native forest sector, 5,737 jobs are in the plantation sector while 14,384 are in secondary processing which refers to the creation of value added wood products, such as cabinet making. The secondary processing jobs will not disappear with the loss of native forest logging as they will transfer to other timber supplies.

Chapter 1 Introduction

In the background section of the report (1.2) there are details of the products produced from logging our native forests. It is worth noting that 91.7 percent of the logged forest is used to produce pulp, woodchip and sawdust (*Jacki Schirmer - Socio-economic Characteristics of Victoria's Forestry Industries, 2009 – 2012, published 2013*).

The background also notes certification of VicForests to the Australian Forestry Standard (AFS), aligned to the Programme for the Endorsement of Forest Certification (PEFC). These standards are far inferior standards than that of the Forestry Stewardship Council (FSC). The AFS measures management practices whilst the FSC has a performance based focus. The wording of the AFS is weaker and only measures practice, not ecological outcomes.

The FSC includes stakeholder representation in a triple bottom line approach, covering environment, social and economic matters. While the FSC has between 250 to 300 requirements, the AFS only has around 50 requirements. The FSC has been developed with the complexity of forest ecology at its centre, the AFS simplifies the interpretation of forest ecology. Essentially the AFS was developed by industry for industry.

It is worth noting that VicForests has never attained FSC certification despite two attempts for the controlled wood standard due to major non-conformances with the FSC standards.

Chapter 2 Compliance

Chapter 2 of the report discusses the legislative framework including the legislation, regulations and policies that govern VicForests. In **section 2.2.2 Timber Release Plans** (TRP) are described. Although there is a mechanism to consult on TRPs and change them, it is worth noting that despite a public consultative process there has been no change to respond to community concerns. This is because responsibility of the approval of amendments or variations to the TRP was transferred to VicForests in 2014 just prior to the last state election.

The TRP change process can be a murky one for community members to navigate. For example in 2013 a coupe 297-505-0003 was objected to by a key community group The next iteration of the TRP saw that coupe number listed as removed, however the coupe was renumbered to 297-521-001 and readded to the TRP. In another case coupe 464-502-0002 was removed from the TRP in 2012, only to be added back in 2014.

Section 2.2.3, Sustainability Charter makes reference to Regional Forest Agreements (RFA) which have been in place since 1997, are 20 year agreements and are supposed to offer protection for endangered and vulnerable flora and fauna. However what RFAs effectively do is exempt logging from commonwealth environment laws, namely the *Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)*.

RFAs have failed to provide security to industry and failed to secure a reserve system to protect species.

The haphazard approach to reviews with delays as much as 5 years, the lack of conformance to a 5 yearly review cycle, the reliance on the efficiency of state agencies to update information such as Action Statements, the absence of any enforcement for failure to meet review deadlines, the lack of taking into account existing on the ground conditions, the lack of attention to the impact of climate change or the value of water, the exemption from the EPBC Act, the automatic rollovers of RFAs and the lack of an open and transparent public process all point to a failure of this instrument to provide any protections to endangered and threatened species.

Section 2.3.1 Code of Practice for Timber Production (the Code) describes the framework for regulation of logging. The Code includes mandatory actions in relation to biodiversity.

"Mandatory Actions
Addressing biodiversity conservation risks considering scientific knowledge
2.2.2.1 Planning and management of timber harvesting operations must comply with relevant biodiversity conservation measures specified within the Management Standards and Procedures.
[….]
2.2.2.4 During planning identify biodiversity values listed in the Management Standards and Procedures prior to roading, harvesting, tending and regeneration. Address risks to these values through management actions consistent with the Management Standards and Procedures such as appropriate location of coupe infrastructure, buffers, exclusion areas, modified harvest timing, modified silvicultural techniques or retention of specific structural attributes."

It is my view there is a systemic failure by VicForests to apply the mandatory actions of the Code given the recorded number of breaches of logging protected forests and logging where endangered and vulnerable species are present. Refer to evidence to the inquiry by Ms Danya Jacobs, Environmental Justice Australia (2.5.2 Environmental Compliance). It is my view a recommendation around the range of compliance breaches should have been included as part of this report. Although initially one was drafted in relation to VicForests prelogging surveys, there was not majority support of committee members to retain 'recommendation 8' as part of this report. It was drafted as follows:

"RECOMMENDATION 8*: That VicForests undertake more rigorous pre-harvest surveys of coupes for threatened species to prevent logging of the habitat of threatened species and to avoid disruptions to logging that occur when third-party reports identify threatened species in a coupe that is being harvested."*

Given the evidence the committee heard, draft recommendation 8 should have been an inclusion in the report.

Section 2.3.2 Management Standards and Procedure makes reference to prescriptions in relation to threatened species protections via Action Statements. As it currently stands the Victorian Action Statement that applies to the Leadbeater's Possum was updated in July 2014, based on the Leadbeater's Possum Advisory Group (LPAG) recommendations. The Federal Recovery Plan, supposed to be in effect by mid 2016 is now with the Commonwealth Department of Environment awaiting approval> It is understood that it is now due by April 2018.

The slow rate of progress on this action statement and recovery plan process illustrates the low priority protection of threatened species is given and is symptomatic of a lack of focus on protecting the biodiversity values of native forests.

Professor David Lindenmayer's most recent review of the Leadbeater's Possum (August 2017) says "*The process to write the new DEPI Action Statement (2014) was poor. Experts who have studied the species for decades and members of the Recovery Team who had worked towards a revised Action Statement for several years were not involved. The new DEPI Action Statement was based on LPAG recommendations which were compromised due to restrictive terms of reference. Despite Leadbeater's Possum being more endangered now than it was when the original Action Statement was written in 1995, several sections of the new Action Statement make protection of the species more difficult".*

Section 2.4. VicForests Utilisation Procedures discusses the environmental and operational requirements that must be followed for commercial logging managed by VicForests. It is my view there is an inherent weakness in the procedures in that VicForests can at any time review and change the procedures with little oversight. Community members in the Yarra Valley often complain about the hours of operation of logging trucks which extend beyond those outlined in the Utilisation Procedures.

"19.2 Authorised Hours (a) A Contractor must not cart, or permit any other person to cart timber resource in a State forest, without the prior written permission from DEPI during the following times: (i) after sunset and before the following sunrise on Monday to Saturday; and (ii) at any time between midnight on a Saturday and midnight on Sunday."

The procedures are simply amended and approved with little consideration given to local amenity and safety impacts and no recourse for community members and local businesses.

Of grave concern was the evidence provided by Mr Vince Hurley of Australian Sustainable Hardwoods (2.5.1) who detailed allegations of VicForests supplying *"logs that do contain higher grades into sawmills that are paying for lower grade timber"* suggesting that higher grade logs are being sold to mills that don't require that higher grade timber.

Section 2.5.2 focuses on environmental compliance, the evidence further reinforcing VicForests are not undertaking prelogging surveys as required by the Code, with Ms Danya

Jacobs of Environmental Justice Australia saying *"We know that there are systemic, ongoing compliance issues relating to threatened species protection in state forests. VicForests consistently fails to identify protected biodiversity values in our forests before it logs....and that is in contravention of requirements in the code of practice for timber production".* This evidence provides even further justification for draft recommendation 8 to be included in the final report.

It is telling that the legislative protections in place to protect the Leadbeater's Possum failed the species in the determination of My Environment vs VicForests. The core issues, simplified, can be summarised as:

1. The 1995 Action Statement contained a clause that it would be implemented through a Forest Management Plan ("FMPs are the primary vehicles for the implementation"), which hadn't yet been written. When it was written, with industry involvement, it weakened the prescription in the Action Statement. In order to facilitate logging only the best "optimum" habitat was protected, not all Leadbeater's Possum habitat.

2. Zone 1A habitat was defined by the presence of "living mature and senescing" ash trees. This was previously understood to mean mature trees (120+ years) and senescing trees (200+ years) but during the case VicForests' defence came up with the argument that it meant any tree had to be both mature and senescing to qualify. Justice Osborn accepted this interpretation. A senescing trees is, by definition, post mature so this, in effect, cut out the class of trees that are mature but not yet senescing. Areas that contain sufficient density (per the prescription of 12 trees per 3 hectares) of 200+ year old trees are very rare so almost no Leadbeater's Possum habitat would qualify for protection as Zone 1A.

3. Given the above, Justice Osborn found that the Precautionary Principle did not apply.

2.6 Consequences of non-compliance. Of note was the evidence provided by Ms Young of The Wilderness Society in relation to economic modelling (2.6.1). Ms Young presented environmental economic accounting devised by the United Nations which indicated the following economic returns per hectare:

- Native Forest logging - $29
- Tourism - $353
- Water - $2,203
- Agriculture - $2,667.50

Tourism, Water and Agriculture can exist concurrently whilst logging native forests is a single use application of our forests.

This environmental economic accounting information is yet more evidence that the economic future for the forests in Victoria should be the creation of the Great Forest National Park in the Central Highlands and the Emerald Link in East Gippsland.

Chapter 3 Supply

In evidence provided to the committee around protection threatened species (3.1.1) Mr Nathan Trushell of VicForests stated that the 200 metre buffer zone accorded to areas of protection where the Leadbeater's Possum have been sighted was 'highly precautionary'. This may well be Mr Trushell's opinion, however it is not one based in scientific rigour.

The publication *New Restoration Forest Management Prescriptions to Conserve Leadbeater's Possum and Rebuild the Cover of Ecologically Mature Forest in the Central Highlands of Victoria (Lindenmayer, Blair, McBurney and Banks, 2013)* provides peer reviewed ecological research to highlight the necessity of the application of a 1000 metre buffer zone and actions to address the collapse in the availability of hollow bearing trees. The report recommends a range of prescriptions that should be applied including:

"Prescription 2:
2.1 All locations where Leadbeater's Possum has been recorded present in the past 15 years will be protected by a 1 km buffer from which logging (both clearfell and thinnings) is excluded.
[….]
Prescription 3:
3.1 Each hollow-bearing tree (whether living or dead) will be surrounded by a buffer of unlogged forest measuring 100 m in radius.
3.2 The locations of buffers to protect living and dead hollow-bearing trees will be mapped and the subsequent spatial data lodged on the Government Geographic Information System.
3.3. All trees 100 or more years old should be protected and surrounded by a buffer of unlogged forest measuring 100 m in radius."

The report details "*guidelines for a new approach to restoration forest management to better conserve Leadbeater's Possum and rebuild the (ecologically) mature forest estate in the Central Highlands of Victoria*". Six new prescriptions are included for on the ground management. The report also calls for an expansion National Parks in the Central Highlands region.

Despite these recommendations the industry dominated LPAG determined a 200 metre buffer zone as way to ensure there was no more than a 5 percent decrease in yield as a result of the cumulative effect of all of the LPAG recommendations. The 200 metre buffer is certainly not highly precautionary when it comes to the protection of the now critically endangered Leadbeater's Possum.

It is also worth noting that only 2.5 percent of VicForests total available resource is now no longer available for logging due to the application of the 200 metre buffer zone.

The report indicated that the recent Victorian Environmental Assessment Council's (VEAC) assessment of fibre and wood supplies concluded that VicForests wood modelling is sound (3.1.2). However in evidence provided by VicForests to questions on notice (9 August 2017, question 17), VicForests confirmed that they do not consider the impact of future fires as part of their wood modelling process. It is understandable the situation we see unfolding

has become a reality as at no time VicForests have contemplated the impact of fire until after the event. It would seem to be a fundamental flaw to exclude a modelling input which is real and likely.

It is worth noting Professor David Lindenmayer's assessment of the VEAC report in his most recent review (Leadbeater's Possum Review August 2017).

"Although the VEAC consultants' report details the 'losses' due to Leadbeater's Possum buffering to the level of each cubic metre of wood, the report fails to provide even broad figures on the comparable likely losses due to fire or climate change. This is curious given the far greater magnitude of losses due to fire and climate change, and presumably, greater impact on the industry. The expected catastrophic ecosystem collapse predicted by climate change was not even mentioned in the Executive Summary of the report from VEAC".

Chapter 4 Conclusion - issues for the future

The evidence provided by Mr Chris McEvoy below and detailed in **section 4.2. The future of the industry – jobs and sustainability** of the report is telling. It signals an industry that has failed to look to the future and transition to plantation to secure its future. Ageing technology and a diminishing native forest resource has a cumulative negative effect on an industry that should have been planning a transition a long time ago.

"A lot of sawmills have got ageing technology and they have got ageing equipment that was fine for old-growth forest and big logs, but as regrowth timber gets smaller and as plantations have got a different set of problems, that is where the industry needs to innovate… There are a number of alternatives and alternative products, and that is where I think the industry needs to go."

There is a case for VicForests providing greater transparency and openness in its approach to the community. In 2017 it is poor practice to be reactive and only provide information if requested (and even this approach is inconsistent). Although outside the terms of reference of this inquiry, it would be a positive step if VicForests would publish the following information online in a timely manner:

- All prelogging survey results;
- Timing of logging of individual coupes in a narrower timeframe than currently published; and,
- Logging Coupe Plans.

In closing

There are many complexities that weren't explored as part of this inquiry and not enough time dedicated to hearings to fully examine the issues. As such questioning was rushed and not as comprehensive as I would have preferred.

Although the inquiry was specifically focussed on VicForests, its operation and supply issues, central to the issue is the question of whether we should be logging our native forests into the future.

It is my view that the best way to secure a new economic future for regional Victoria, particularly the east of Victoria, is to create the Great Forest National Park in the Central Highlands and the Emerald Link in East Gippsland. This would not only bolster new economic opportunities but conserve our forests for all their values including biodiversity, carbon storage and watersheds. Transitioning to plantation timber from native forest would provide the 79 threatened species dependent on the forests an opportunity to persist rather than face extinction.

Most notable is the Leadbeater's Possum, our state's faunal emblem, recently uplisted to critically endangered. A key threatening process to its ongoing survival is the logging of the montane forests in the Central Highlands and these forests are still being logged. It faces a real and serious threat of extinction. Not only does the Leadbeater's Possum face extinction, the forest it lives in, the mountain ash forest ecosystem itself, is listed as critically endangered by the International Union for Conservation of Nature. Given so much of our forests are pulped and woodchipped (91.7 percent), it is time for a new approach.

I thank the committee secretariat for their tireless hard work and bringing together a cohesive report when there were at times very polarised views on the committee.

Samantha Dunn MLC

Member for Eastern Metropolitan Region

Greens spokesperson for Public Transport, Roads and Road Safety, Planning, Local Government, Forests and the Great Forest National Park

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