Timber Industry Strategy

Submission by the Victorian Association of Forest Industries

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Executive Summary

The Victorian Association of Forest Industries (VAFI) strongly commends the Victorian Government on the development of a Timber Industry Strategy and on the substance of the *Timber Industry Strategy – Public Consultation Draft*.

The VAFI is the peak forestry industry body in Victoria. It was established in 1945 and represents its members' interests to governments, communities and markets. Our members include forest growers, processors and associated bodies.

We believe it is imperative that the Timber Industry Strategy (TIS) redress the erosion of resource security in the Victorian forestry industry and provide a policy and regulatory framework that can facilitate investment, innovation and development of new market opportunities.

The TIS is an essential part of ensuring our industry is diverse, adaptive, competitive and innovative in the future. The need to build public understanding and communicate openly about forest management and social, economic and environmental impacts and benefits associated with the entire forestry industry is integral to this vision.

Establishing, implementing and achieving a long-term vision

The new vision for Victoria's timber industry which is set out in the Draft TIS must be strategic, ambitious and long-term in approach and clear about how implementation and outcomes will be achieved.

The VAFI believes the Draft TIS priorities attempt to reflect the ambition and long-term direction required. However, the level of ambition for some actions, including the institutional model for management of native forests does not reflect the same level of ambition. In addition, some activity proposals focus too heavily on current operational issues – there is a need to review activity proposals to ensure they are consistent with a long-term direction for the industry.

We need to make sure that there is a clear and coordinated plan for the implementation of the final TIS. This requires detailing how many of the activity proposals will be achieved including the mechanisms, timing and resources for implementation, including where national coordination is required.

It would be beneficial to define the outcomes sought for each action and activity proposal so that progress in implementing the final TIS can be measured and activities adapted and additional resources sought as required.

Overall, we believe the Draft TIS is a comprehensive and progressive document. In particular, the VAFI strongly supports the proposals to:

- Extend the availability of wood supply contracts to 20 years;
- Reduce sovereign risk from changes in Government policy and Government;
- Achieve national consistency in the adoption of market-based mechanisms for log sales, governance and cost recovery for timber from native forests and plantations;
- Remove regulatory barriers to recognition of plantations as an 'as of right' crop-raising activity and provide consistency in application of the Code of Practice for Timber Production on Private Land;

- Review and improve the governance and administration of VicForests and the VicForests Price and Allocation Model;
- Recognise the value of native forest residues to bioenergy and the potential value for wood in biofuel production;
- Prioritise research and development in the areas of climate change and adaptation, biosecurity, socio-economic impacts and industry productivity and innovation; and
- Commit to equal recognition by the Victorian Government of all internationally recognised third party forest certification schemes.

There are a number of issues which are crucial to the ability of the final TIS to support meaningful reform, which we believe require serious review and improvement. They are detailed below.

Resource security?

It is crucial that the size of the harvestable area not be reduced any further, threatening the critical mass for the native hardwood industry as recognised in the Draft TIS. It is important that this commitment is reflected in the regulatory framework for forest management and resource security is achieved.

At this stage, we do not believe the changes proposed in the Draft TIS will achieve the certainty of access required to ensure ongoing competitiveness and stimulate investment.

It is important that Working Forest Plans (WFPs) provide real value in terms of increasing land management functions of VicForests and providing resource security.

Wood supply contracts of up to 20 years cannot be achieved without the Victorian Government underwriting VicForests. The WFPs will not address the disproportionate risk carried by the industry, and by VicForests. The Victorian native forestry sector currently operates under supply conditions and an auction structure which incur higher risks, higher costs and lower certainty than in other States. The VAFI believes the underwriting of VicForests' supply contracts would restore business and investor confidence in the industry and provide a sound basis for sustainable growth.

However, the TIS should not specify the volume of wood to be sold out to a 20 year maximum. The allocation of supply contracts out to the 20 year maximum is a decision that rests with the VicForests Board and its shareholder, taking into account the benefits of facilitating investment and risk management.

The VAFI recommends:

- **Confirm the Victorian Government's commitment and adherence to the Regional Forest Agreements and undertake the review of the Victorian RFAs jointly with the Australian Government**
- **The Victorian Government must underwrite VicForests for its wood supply contracts**
- **Remove the specification "recognising that good risk management provides that only a small proportion of volume is ever committed out to 20 years"**
- **More detail is required on how the TIS will ensure that changes in State Government policy are not unduly afforded 'force majeure' status**

Best practice institutional and governance arrangements

The VAFI believes that there is not enough detail about the standing, scope and effectiveness of WFPs to provide clear support for this model, although we do note it appears to be a better model than currently exists. WFPs may provide a basis within the current regulatory framework for better forest management outcomes and better resource security, which is required to support ongoing investment and growth in the forestry industry.

However, it is not the optimal model for achieving effective governance and regulatory efficiency for native forests. There are currently areas of duplication and inefficiency, particularly in the area of planning and regulation and monitoring of sustainable harvest levels.

As identified in the draft report of the Victorian Competition and Efficiency Commission's (VCEC's) Inquiry into Environmental Regulation in Victoria,[1] a separation of land management, regulation and policy mechanisms is consistent with best practice and one that the VAFI unequivocally endorses.[2]

At a minimum, WFPs must not add to the regulatory burden of current arrangements. In addition, it is important that regulatory efficiencies are made in processes such as Allocation Order and Timber Release Plan approvals, forest inventory and reporting.

We believe that it is important for the final TIS to review the objectives of the pricing and allocation model (PAM) to ensure they are consistent with a framework for a robust, innovative and internationally competitive industry for the future. The VAFI also supports the Review of the governance and administration of VicForests. We believe that this review should include a review of the PAM with the aims of improving its structure and operation. It should also include the VicForests Charter and direction, terms of supply, communication approaches and the future product and service possibilities. The review should be independent and overseen by a Steering Committee with representation from Government, the union and the VAFI.

The TIS also proposes the establishment of a Forest Practices Unit within the Department of Sustainability and Environment (DSE). The VAFI supports this proposal but we do not believe it is best practice in standards and conformance and governance for the Unit to be responsible for both standard setting and accreditation. Standard setting for the Code should be undertaken by a separate, independent working group.

The VAFI recommends:

- **Governance and institutional reforms are considered in line with the recommendations of the VCEC Draft Report for the Inquiry into Environmental Regulation**
- **Improve regulatory efficiency whilst maintaining the integrity of the regulatory process**
- **WFPs should identify VicForests as the land manager and allocate the required responsibility and resources**
- **The TIS must be clear about the outcomes to be achieved by WFPs including facilitating the sale of wood out to 20 years and providing a basis for facilitating broader use of forestry skills, practices & techniques as forest management tools**

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[1] Victorian Competition and Efficiency Commission (2009) A Sustainable Future for Victoria: Getting Environmental Regulation Right, A draft report for further consultation and input, March

[2] Recommendation 14.5 of the VCEC Draft Report: *That in preparing the Timber Industry Strategy the Victorian Government considers options for improving the regulation of native forests, such as separating land management, regulation and policy mechanisms, for delivery by separate agencies*.

- **Regulatory approval processes must be streamlined including Timber Release Plan approvals**
- **VicForests should be the agency responsible for forest inventory including the Statewide Forest Resource Inventory (SFRI) data management and reporting with DSE providing an area-based allocation only as well as regulatory oversight through its monitoring role**
- **Revise the objectives for the VicForests Price and Allocation Model so that it ensures 'long-term or sustainable revenue maximisation' and that it 'maintains a competitive market'**
- **The VicForests Review must include the VicForests' Charter, the Price and Allocation Model, terms of supply, communication with customers, public communication and the scope of products and services that can be provided by VicForests as part of a more integrated and innovative forestry industry**
- **A Steering Committee with representation from Government, the union and the VAFI be established to oversee the independent review of VicForests and report back to Government**
- **Standard setting and accreditation functions be separated under the Forest Practices Unit model. The Code should be developed and reviewed by an independent technical working group. The Forest Practices Unit would be responsible for 'accrediting' the Code and 'Accredited Forest Practitioners' and monitoring and enforcing compliance**

Developing new market opportunities – enabling a diverse and innovative industry in a carbon constrained world

The development and commercialisation of new and emerging markets is essential for the future growth, diversification and competitiveness of the industry.

Carbon trading under the Commonwealth Government's proposed Carbon Pollution Reduction Scheme (CPRS) and a potential extension of the carbon market for forests and forestry, including recognition of the carbon stored in harvested wood products will provide new commercial opportunities.

The development of markets for renewable energy also provides opportunities for resource efficiency. It is important that the TIS builds a strong platform for investment in bioenergy in Victoria and facilitates the use of wood resides for this purpose. The VAFI commends the Draft TIS for recognising the value that wood for bioenergy and biofuels can play in ensuring Victoria's energy security in the future.

It is important that the Victorian Government ensure native timber residues are eligible for renewable energy certificates under the existing Victorian Renewable Energy Target scheme (VRET) during the transition to the expanded National Renewable Energy Target scheme (RET) and that regulatory requirements for the RET are reviewed to allow wood wastes already covered by existing frameworks such as the Regional Forest Agreements (RFAs) to be accepted within the scheme.

The VAFI believes that product stewardship and the facilitation of greater reuse and recycling of timber and timber-related products is consistent with this approach. We believe there are opportunities for the Victorian Government and industry to work together to facilitate a greater level of product stewardship.

Meeting the challenges and developing new market opportunities in a future of climate change will require investment in research and development and in our workforce. It also requires open and competitive markets. The VAFI strongly supports the proposal in the Draft TIS for objective and

equitable recognition in government-endorsed and funded procurement schemes and sustainability guides of all internationally recognised forest certification schemes as a mechanism to demonstrate forest management consistent with responsible management requirements in addition to regulatory requirements.

The VAFI recommends:

- **The Victorian Government play an ongoing role in building the capacity of industry, and particularly small industry participants, in understanding the opportunities, risks and implications of participating in the CPRS**
- **The Victorian Government cooperate with the Australian Government on a technical level to improve the effectiveness of the national carbon accounting modelling, including development of parameters for Victorian circumstances**
- **The Victorian Government take an active role in liaising with the Australian Government and the forestry industry to understand the implications of potential rules for forestry under a post 2012 international climate change framework and the domestic application options for agreed international rules**
- **The Victorian Government support the Australian Government's efforts to appropriately include carbon stored in timber products in the international climate change framework and where that is achieved, support development of options for the domestic application of those rules**
- **The Victorian Government provide support to industry to facilitate a greater level of product stewardship**
- **The Victorian Government ensure VRET rules are amended to be consistent with the stated policy objective of allowing native timber residues to be used in bioenergy production and allowable recipients of renewable energy credits**
- **The Victorian Government actively promote a change to national regulatory requirements for the RET to allow wood wastes already covered by existing frameworks such as the RFAs to be accepted within the scheme**
- **The Victorian Government should facilitate the uptake of bioenergy through the provision on public information to promote the environmental, economic and social benefits of bioenergy**
- **Victorian Government must ensure that funding for renewable energy is made available to the development of projects for biomass energy and for biofuels**

In addition to these key recommendations, we also make the following proposals for change to the TIS:

- **Implement initiatives to improve the reliability of resource data**
- **Develop the auction platform as a marketplace for a range of products including secondary market native timber and products from plantations, private native forests and farm forestry**
- **Ensure Regional Sustainable Water Strategies are developed in line with the outcomes of Action 2.20 of Securing our Water Future and with appropriate industry participation**
- **Establish a collaborative mechanism for consideration of and funding for ongoing infrastructure upgrade and maintenance across the State. TIRES and the Local Roads Funding Strategy should provide base information**
- **The VAFI believes that the final TIS must recognise the role of firewood in providing a renewable and greenhouse friendly source of heating. It must also recognise the role of**

the DSE Firewood Strategy for Public Land in Victoria as well as the need for other sources of firewood supply in Victoria to meet our heating needs

Introduction

The Victorian Association of Forest Industries (VAFI) strongly commends the Victorian Government on the development of a Timber Industry Strategy and on the substance of the *Timber Industry Strategy – Public Consultation Draft*. The VAFI appreciates the opportunity to make this submission as part of the public consultation process.

The VAFI is the peak forestry industry body in Victoria. It was established in 1945 and represents its members' interests to governments, communities and markets. Our members include forest growers, processors and associated bodies.

The VAFI is committed to promoting an economically robust, socially responsible and environmentally sustainable forestry industry. We support and encourage best practice in industry and in forest and land management.

We believe it is imperative that the Timber Industry Strategy (TIS) redress the erosion of resource security in the Victorian forestry industry and provide a policy and regulatory framework that can facilitate investment, innovation and development of new market opportunities.

The TIS is an essential part of ensuring our industry is diverse, adaptive and competitive in the future. The need to build public understanding and communicate openly about forest management and social, economic and environmental impacts and benefits associated with the entire forestry industry is integral to this vision.

Our industry

The forestry industry in Victoria is a significant local employer and manufacturing industry. Victorian sourced timber generated approximately $3 billion in economic value in 2007-08 and much more in flow on economic activity. Victoria's sales and services income from wood and paper product manufacturing industry is $6.5 billion. [3]

It is estimated that in 2006, there were 1,875 enterprises with operations in the forest-growing and wood product industry in Victoria, employing 32,154 people. [4] The industry supports an important manufacturing sector and makes a significant socio-economic contribution in regional Victoria.

This production is generated from a relatively small land base. Victoria has the following areas available for timber production:

- 422,112 hectares plantation;
- 600,000 hectares public native forest (approximately 9 percent of all public native forest in Victoria); and
- 350,000 hectares private native forest.[5]

[3] Victorian Department of Primary Industries ((2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April; quoted from ABARE (2008) Australian Forest and Wood Product Statistics, March and June quarters 2008, Canberra

[4] ForestWorks (2006) *Forest and Wood Products Industry Workforce and Industry Data Collection Survey Report 2006*, National Skills Company for the Forestry and Forest Products, Furnishing and Pulp & Paper Industries Ltd and Forest and Wood Products Australia, Melbourne

The Victorian forestry industry operates according to strict regulatory controls for responsible forest management. Timber production on public land managed by VicForests is certified to the Australian Forestry Standard.[6] Approximately 86 percent of the total plantation area in Victoria is certified under the Australian Forestry Standard, the Forest Stewardship Council, or both.[7]

This submission

This submission makes overarching comments about the ambition, direction and substance of the Draft TIS, followed our detailed response to each action and proposal.

[5] Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April; quoted from ABARE (2008) Australian Forest and Wood Product Statistics, March and June quarters 2008, Canberra; Bureau of Rural Sciences (2009) Australia's Plantations: 2009 Inventory Update, Department of Agriculture, Fisheries and Forestry, http://adl.brs.gov.au/mapserv/plant/NPI2009Update.pdf

[6] The Australian Forestry Standard and the Forest Stewardship Council are two independent, internationally recognised schemes for the certification of responsible forest management which are available in Australia.

[7] Victoria has approximately 422,112 hectares of softwood and hardwood plantations. Approximately 361,930 hectares are certified to AFS and/or FSC. www.forestrystandard.org.au and www.fscaustralia.org, accessed 17 April 2009

A new vision for Victoria's timber industry

The new vision for Victoria's timber industry which is set out in the Timber Industry Strategy must be strategic, ambitious and long-term in approach and clear about how implementation and outcomes will be achieved.

A strategic, ambitious and long-term approach

We need to set the policy and regulatory framework to encourage investment, innovation, competitiveness and the development of new market opportunities. We also need to ensure that the framework provides for ongoing transparency and accountability for use of public land, practices that protect environmental values and provide social benefits and a greater level of dialogue and public understanding about forest management and the outcomes of a sustainable Victorian forestry industry.

The VAFI supports the four overarching priorities for the TIS:

- Facilitate productive, competitive and sustainable timber industries;
- Ensure the development and operation of efficient timber markets;
- Drive innovation in forestry science, technology and practice change; and
- Foster strong communities.

We believe these priorities epitomise the ambition and long-term direction required. It is important that the actions and activity proposals which constitute the substance of the final TIS, support this level of ambition and direction. Some activity proposals in the Draft TIS focus too heavily on current operational or policy issues - there is scope and a need to reshape some activity proposals so that they provide long-term direction.

Ensuring implementation and outcomes

We need to make sure that there is a clear and coordinated plan for the implementation of the TIS. This requires detailing how many of the activity proposals will achieved including the mechanisms, timing and financial and other resources for implementation.

In particular, there is a need to detail the financial and other resources necessary and available for implementation of the TIS, including for infrastructure, research and development, training and skills development, governance improvements, development of private native and farm forestry and efforts to enhance community understanding of the benefits of responsible forest management in Victoria.

This would include specifying the level of Government funding and actions and ways to facilitate investment and industry coordination or actions. The VAFI recognises that we play a role in achieving the objectives of the TIS, as do other industry stakeholders.

There are also key activity proposals which require national coordination or cooperation. It is important that the final TIS set out how these proposals will be undertaken and can be achieved.

It would be beneficial to define the outcomes sought for each action and activity proposal so that progress in implementing the TIS can be measured and activities adapted and additional resources sought as required.

Overall, we believe the Draft TIS is comprehensive in its coverage of key areas for action and is based on sound technical analysis. In particular, we believe the Annex on Victoria's timber industry provides an excellent addition to the Strategy.

Action 1: Provide Greater Certainty of Access to Public Native Forest for Timber Resources

Greater certainty is not yet guaranteed

The VAFI welcomes the confirmation that "the Victorian Government has finalised the national parks agenda in eastern Victoria and is now in a position to provide more security to industry and reliant communities over future timber supply from this region."[8]

In the Bracks Government's Policy for the 2006 Victorian Election it proposed a significant National Parks expansion, which totalled approximately 154,110 hectares.[9] [10] Over 100,000 hectares of this area had been State forest and available for timber harvesting.

These National Park increases followed:

- the elimination of timber harvesting in the Otway region and the establishment of the Great Otway National Park;
- the reduction of timber harvesting in Box Ironbark forests to a minimal level and the establishment of new or expanded National and State Parks totalling over 105,00 hectares; and
- the ending of timber harvesting in the Wombat Forest.[11]

In the Election Policy, the Bracks Government claimed that since 1999 it had "created more National Parks than any Government in Victoria's history."[12]

It is crucial that the size of the harvestable area not be reduced any further, threatening the critical mass for the native hardwood industry as recognised in the Draft TIS. It is important that the commitment in the Draft TIS is reflected in the regulatory framework for forest management and resource security is achieved.

At this stage, we do not believe the changes proposed in the Draft TIS will achieve the certainty of access required to ensure ongoing competitiveness and stimulate investment.

The VAFI believes that there is not enough detail about the standing, scope and effectiveness of Working Forest Plans (WFPs). They may provide a basis within the current regulatory framework for better forest management outcomes and better resource security, which is required to support

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[8] Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April, p. 9

[9] Australian Labor Party – Victoria (2006) 'Victoria's National Parks and Biodiversity', Policy for the 2006 Victorian Election

[10] This includes 41,000 hectares specified in the policy for the Goolengook Block, the Great Alpine National Park and forest in East Gippsland as well as 94,710 hectares of expanded Red Gum National Parks and 18,400 hectares for Cobobboonee National Park, which were not specified in hectares in the Policy but which have since been or are in the process of being implemented.

[11] Australian Labor Party – Victoria (2006) 'Victoria's National Parks and Biodiversity', Policy for the 2006 Victorian Election

[12] Australian Labor Party – Victoria (2006) 'Victoria's National Parks and Biodiversity', Policy for the 2006 Victorian Election

ongoing investment and growth in the forestry industry. This would be a better model than currently exists.

Better versus the best model for governing native forests

However, it is not the optimal model for achieving effective governance and regulatory efficiency for native forests. There are currently areas of duplication and inefficiency, particularly in the area of planning and regulation and monitoring of sustainable harvest levels.

As identified in the draft report of the Victorian Competition and Efficiency Commission's (VCEC's) Inquiry into Environmental Regulation in Victoria[13], a separation of land management, regulation and policy mechanisms is consistent with best practice and one that the VAFI unequivocally endorses.[14]

Under such a model, The Department of Sustainability and Environment's (DSE's) role would be focused on development of the framework for sustainable forest management and monitoring and audit of compliance with that framework. The Department of Primary Industries' (DPI's) role in commercial forest policy would be explicit for native forests as well as for private forests. VicForests would be responsible for land management functions for State forests, including delivery of sustainable forest management. Such a system would result in regulatory efficiencies as well as a clear level of transparency and accountability for forest management outcomes.

Delivering resource security

It is important that at a minimum, WFPs provide real value in terms of increasing land management functions of VicForests and providing resource security. WFPs must not add to the regulatory burden of current arrangements. In addition, it is important that the Allocation Order and Timber Release Plan (TRP) processes are significantly streamlined.

Wood supply contracts of up to 20 years cannot be achieved without the Victorian Government underwriting VicForests. The Working Forest Plans will not address the disproportionate risk carried by the industry, and by VicForests. The VAFI believes the underwriting of VicForests' supply contracts would restore business and investor confidence in the industry and provide a sound basis for sustainable growth.

1.1 We will continue to maintain and enhance Victoria's world-class sustainable forest management framework so that it meets the highest possible environmental standards.

The VAFI supports the continued review and improvement of forest management practices in line with the multiple values of public native forests, including sustainable timber production, water production, biodiversity conservation, cultural values, recreation, tourism and carbon sequestration.

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[13] Victorian Competition and Efficiency Commission (2009) A Sustainable Future for Victoria: Getting Environmental Regulation Right, A draft report for further consultation and input, March

[14] Recommendation 14.5 of the VCEC Draft Report: *That in preparing the Timber Industry Strategy the Victorian Government considers options for improving the regulation of native forests, such as separating land management, regulation and policy mechanisms, for delivery by separate agencies*.

Our industry is a user of public land and we recognise and support the strict regulation, monitoring and reporting of practices and outcomes in line with our obligation to transparency, accountability and responsible environmental management.

The Regional Forest Agreements (RFAs) underpin the substantial reserve system in Victoria and regulation of multiple use native forest. Following the conclusion of the RFA process, the Victorian Government undermined resource security by removing areas from multiple use as part of election campaigns. Furthermore, the joint review of the RFAs with the Australian Government has been neglected and is now significantly overdue.

The VAFI is pleased that this reserve agenda is now considered complete. However, there is a clear need for the Victorian Government to reaffirm its commitment and adherence to the RFAs and to expedite the review of the RFAs as a priority given they provide the backbone to multiple use management of public native forests and the native forestry sector.

As discussed above, we do not believe the model proposed is the optimal regulatory framework for Victoria's native forests.

Options to streamlining the legislative basis for State forests and administrative arrangements should be investigated on the basis of experience to date in implementing current requirements and in the interest of making efficiency gains whilst maintaining the integrity of regulatory processes.

These include streamlining the TRP process and inventory management (see discussion for 1.3 and 2.1).

As stated above, the VAFI believes a separation of the management, regulatory and policy functions for native forests would be the optimal institutional model and consistent with best practice.

Recommendations:

- ***Confirm the Victorian Government's commitment and adherence to the Regional Forest Agreements and undertake the review of the Victorian RFAs jointly with the Australian Government***
- ***Improve regulatory efficiency whilst maintaining the integrity of the regulatory process***

1.2 The Allocation Order will clearly identify the areas of State forest in eastern Victoria available for timber production. These areas will be designated as Working Forest Areas.

The Allocation Order and the other measures noted which can provide additional resource sustainability are subject to a number of processes including the Action 2.21 Wood & Water project and measures to protect threatened species. It is crucial that these processes are transparent, accountable and take into account socio-economic impacts so that they do not erode resource security but are implemented as part of a responsible and integrated forest management framework.

1.3 We will develop long-term Working Forest Plans to clearly define the ongoing management arrangements for Working Forest Areas.

The VAFI believes that VicForests is the appropriate land manager for areas identified as Working Forest Areas.

More detail is required about the substance of WFPs as well as how they will be prepared. They should provide a basis for the greater role of forestry as a forest management tool and allocate appropriate responsibilities and resources. Importantly, the final TIS must be clear on the outcomes that WFPs need to deliver. The VAFI believes it would be appropriate for WFPs to be agreed by both the Minister for Environment and Climate Change and the Minister responsible for VicForests.

It is important that at a minimum, WFPs provide real value in terms of increasing land management functions of VicForests and providing resource security. WFPs must not add to the regulatory burden of current arrangements. In addition, it is important that the Allocation Order and TRP processes are significantly streamlined.

There is a significant amount of red tape involved in the Allocation Order and in particular the TRP processes. VicForests prepares the TRP which is reviewed and approved by DSE. There is significant scope to streamline the approval processes within DSE so that the process is simpler and will not take so long. This can be achieved within the current legislation and should be a priority given the added layer of regulation proposed through WFPs.

Recommendations:

- ***Governance and institutional reforms are considered in line with the recommendations of the VCEC Draft Report for the Inquiry into Environmental Regulation***
- ***WFPs should identify VicForests as the land manager and allocate the required responsibility and resources***
- ***The TIS must be clear about the outcomes to be achieved by WFPs including facilitating the sale of wood out to 20 years and providing a basis for facilitating broader use of forestry skills, practices & techniques as forest management tools***
- ***Regulatory approval processes must be streamlined including Timber Release Plan approvals***

1.4 We will enable VicForests to maximise the long-term economic returns to Victoria from the harvesting of timber in Working Forest Areas in a socially and environmentally sustainable manner.

This is an important proposal and must be adequately reflected in Working Forest Plans. Forestry and forest management has long-term planning and investment horizons as well as long-term environmental impacts.

Stand improvement, regeneration and restoration activities are important elements of sustainable forest management. They are crucial to long-term forest health and productivity. The sale of residues from stand improvement and other management activities for environmental or fire outcomes is consistent with resource efficiency and financing investment in such activities. There is scope to expand the products and services provided by VicForests including greater fire and water management services, the commercial sale of residues from such activities, education and tourism.

The VAFI notes that the Draft TIS states that *"increased certainty of access to timber resources by VicForests can be passed on to its customers in the form of more secure and 'bankable' timber supply contracts."*[15] As noted below, we do not believe the Draft TIS currently delivers this outcome.

1.5 We will enable VicForests to harvest and sell timber for periods of up to 20 years at auction to allow industry to realise a competitive return on investments, allow capital upgrades and drive innovation

The VAFI welcomes the proposal to enable VicForests to harvest and sell timber for periods of up to 20 years at auction to allow industry to realise a competitive return on investments, allow capital upgrades and drive innovation.

This is required to bring length of supply contracts in Victoria into line with other states such as New South Wales (NSW), Western Australia (WA) and Tasmania (see Table 1 below). It is also required because current contract lengths, which average 5-6 years, are too short to attract investment. Analysis based on current returns indicates payback periods for investments are more than 16 years.[16]

Table 1: Comparison of conditions of supply across Australia[17]

Key indicator	Victoria	NSW	WA	Tasmania
Term	5-6 years	20 years	15-20 years	10-20 years
Security of supply	Take or pay – 90% Failure to supply – supplier responsible for direct loss – not consequential loss Requirement to take 50% of annual supply	Take or pay – 90% Failure to supply – supplier responsible for direct loss – not loss of profits or consequential	Investment security guarantee – compensation for failure to supply related to resource changes	Take or pay 75%
Allocation	Moving towards 100% auction based	Negotiated	Negotiated	Negotiated
Pricing	Moving towards 100% auction based	Administered prices - LVPS	Cost of growing/negotiated	Negotiated

Offering wood supply contracts for up to 20 year terms will improve the attractiveness of new capital investment in the sawmilling industry by extending the planning horizon and allowing new capital to be depreciated over a longer term, which directly increases returns on investments.

Despite the proposal, the VAFI does not believe the Draft TIS provides a framework that will actually facilitate the offer of wood supply contracts out to 20 years on the basis of Working Forest Plans. VicForests has advised the VAFI that it would not be able to offer extended wood supply contracts under the proposed arrangements because the commercial risk of longer term supply has not been addressed. For VicForests to be able to offer any contracts for longer periods, the Victorian Government needs to underwrite VicForests for its wood supply contracts. The VAFI believes this is a

[15] Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April, p. 10

[16] URS Australia Pty Ltd (2008) The length of wood supply contracts in the Victorian hardwood sawmilling industry, Report prepared for the Victorian Association of Forest Industries

[17] URS Australia Pty Ltd (2008) The length of wood supply contracts in the Victorian hardwood sawmilling industry, Report prepared for the Victorian Association of Forest Industries, p. ES-1

reasonable and necessary arrangement which would actually deliver the resource security which the TIS seeks to deliver. We also believe this would make timber from native forests more valuable in the market.

However, the final TIS should not specify the volume of wood to be sold out to a 20 year maximum. This level of detail is not appropriate for a long-term industry strategy. Furthermore, the allocation of supply contracts out to the 20 year maximum is a decision that rests with the VicForests Board and its shareholder, taking into account the benefits of facilitating investment and risk management. Should the Victorian Government wish to include such guidance, it should state that "the percentage of volume committed out to 20 years is a matter for the VicForests Board and its shareholder."

Recommendations

- ***The Victorian Government must underwrite VicForests for its wood supply contracts.***
- ***Remove the specification "recognising that good risk management provides that only a small proportion of volume is ever committed out to 20 years."***

1.6 We will strengthen industry confidence in timber supply from Working Forest Areas by ensuring that change in State Government or change in State Government policy are not unduly afforded 'force majeure' status.

The VAFI strongly supports this proposal. However, there is not sufficient detail to demonstrate how this commitment would be maintained.

As described above, the TIS follows years of areas of public native forest available for timber production being traded into reserves at elections. This has created significant sovereign risk, which is borne almost entirely by business. It is vitally important that there is no further reduction in the 'net productive area' of public native forests which is available for timber production, to ensure that the sector is able to maintain the critical mass necessary for investment and competitiveness.

The VAFI believes that the underwriting of VicForests supply contracts would provide some support to this commitment. A reaffirmation of the Victorian Government's commitment and adherence to the RFAs is also appropriate in the context of this commitment.

Recommendations:

- ***More detail is required on how the TIS will ensure that changes in State Government policy are not unduly afforded 'force majeure' status***

Action 2: Improve Estimation and Communication of Sustainable Yield from Public Native Forests

The sustainable yield is a key element of resource security. Long term security of supply and a predictable and transparent process for calculating sustainable yield are urgently required to encourage innovation, investment and development.

2.1 We will implement improvements to the methodology to estimate sustainable yield from public native forests in eastern Victoria.

As the Draft TIS states, DSE and VicForests undertook a modelling project in 2008 to provide an estimate of future resource availability, the Joint Sustainable Harvest Level Project (JoSHL). The project was undertaken because research had indicated the existing sustainable yield methodology required improvement and there was a need to account for the impacts of the 2003 and 2006/07 fires on resource availability.

The outcomes of the JoSHL provided for an estimate sustainable yield of up to 500,000m^3 per year for the next 15 years under a set of assumptions.[18] However, this does not equate to an increase in harvest levels as suggested in the Draft TIS. The JoSHL outcome is an estimate. It is considered an input into the Allocation Order process and not the actual sustainable yield for harvest. In fact the JoSHL estimate includes areas that could be designated as environmental buffers, areas that will be reserved to protect threatened species such as the Leadbeater's Possum and approximately 15 percent of the estimate is based on areas that are considered uneconomic at the moment. VicForests is undertaking research to assess the economic viability of undertaking commercial harvesting in these areas but it would appear unlikely the all of the assumptions would be met.

As the JoSHL report acknowledges, there are several areas where the accuracy of resource data can be improved such as refinement of merchantability models based on harvesting history and field inspection and analysis of non-viable coupes. Such initiatives must be implemented.

Since the JoSHL project was completed, extensive areas of State forest (and reserved forest) have been burnt in the catastrophic Black Saturday bushfires. Up to 25,000 hectares of ash species and 25,000 hectares of mixed species forest were burned in State forest areas, which were available for timber production.[19] That is 50,000 hectares out of the total 464,000 hectares (more than 10 percent) of the public native forest area that is available and merchantable for timber production.[20]

A preliminary estimate by VicForests is that around 10 million cubic metres of standing ash timber with a mill door value of approximately $600 million was burnt.[21] While some of this timber can be salvaged, it will have significantly lower residual price than equivalent green timber. The 46,000 tonnes of stored pulpwood which was lost in Marysville had an inventory value of $2 million.[22]

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[18] Victorian Department of Sustainability and Environment and VicForests (2008) Joint Sustainable Harvest Level Statement, Victorian Government

[19] VicForests, Customer Briefing, 24/02/09 and personal communications

[20] Although 600,000 hectares of public native forest is available for timber production, only 464,000 hectares is considered by VicForests to be merchantable.

[21] VicForests, Customer Briefing, 24/02/09 and personal communications

[22] VicForests, Customer Briefing, 24/02/09 and personal communications

The JoSHL estimate did not include any margin for potential fire impacts and assumed that approximately 37,300 hectares of 1939 ash and 21,900 hectares of mixed origin species are available for harvest and that the 1939 resource will continue to be harvested for the next 45 years.[23]

The 2009 bushfires significantly burnt the 1939 resource. VicForests and DSE are undertaking a salvage program designed to minimise the impact of the fires on future wood supply. However, the impact on the industry, given the age class of forest affected and damage from previous fires is likely to be significant.

Recent history has highlighted the vulnerability of valuable timber resources to wildfire. There is now a need for improved strategies to better protect this resource that underpins Victoria's sustainable forest industries.

Recommendations:

- ***VicForests should be the agency responsible for forest inventory including the Statewide Forest Resource Inventory (SFRI) data management and reporting with DSE providing an area-based allocation only as well as regulatory oversight through its monitoring role***
- ***Implement initiatives to improve the reliability of resource data***

2.2 Each year, VicForests will provide industry with details on the amount, type and location of timber that is to be made available for sale in the coming year, and hold a 'Resource Outlook' briefing.

We fully support this proposal. It is consistent with the aim to provide investment confidence and it is consistent with the need for VicForests' to provide a high level of customer service.

Communication of the range of species and quality available is essential to improving resource efficiency and developing markets for high-value products.

[23] Victorian Department of Sustainability and Environment and VicForests (2008) Joint Sustainable Harvest Level Statement, Victorian Government, p. 16

Action 3: Improve the Sales System for Native Hardwood Logs from Public Native Forests

3.1 We will implement a number of specific improvements to the VicForests Price Allocation Model

The VAFI commends the recommendation to improve the VicForests Price Allocation Model (PAM). Prices for wood from public native forests have increased markedly under the auction system at a time of industry rationalisation due to reductions in the areas available for timber production. The structure and administration of the VicForests auction system has exacerbated the difficulties for many processors.

We believe that it is important for the TIS to review the objectives of the PAM to ensure they are consistent with a framework for a robust, innovative and internationally competitive industry for the future.

The Draft TIS states that the overriding objective for the PAM is allocative efficiency and provides five supplementary objectives. The VAFI agrees that the PAM must achieve efficient levels of investment in the industry; minimise participation costs and operate transparently and fairly.

However, we believe that the objective of revenue maximisation must be reworded as 'long-term' or 'sustainable' revenue maximisation. Despite the fifth objective of 'mitigation of bidders' market power and their ability to collude', the recent operation of the auction system including the auction structure and prices achieved has served to accelerate industry rationalisation.

The VAFI believes that should short-term revenue maximisation continue to be a key objective, this rationalisation will continue leading to regional monopoly or dominant processors, undermining the achievement of mitigation of bidders' market power, the auction system itself and diversity and robustness in the industry.

The VAFI also believes it is appropriate for the fifth objective to be reworded so that the focus is on maintaining a competitive market.

The Draft TIS includes a number of proposed specific changes to the VicForests PAM. A number of these minor improvements have already been made.

The VAFI and VicForests have cooperated in initial roundtables to discuss problems with the PAM, areas where it is working well and possible options to improve the PAM.

The VAFI also supports the Review of the governance and administration of VicForests. We believe that this review should include a review of the PAM with the aims of examining the auction methodology and making specific improvements to its operation. The Review provides an opportunity for the continuous improvement of VicForests and in particular, the improvement of the PAM within the scope of the current auction system.

The VAFI believes the Review should be the start of a process to regularly review the operation of the PAM, in consultation with VicForests' customers to respond to problems and improve the efficiency, effectiveness and equity of the auction system.

The Draft TIS does not cover the issue of the terms of supply. Tbale 1 demonstrates the terms of supply are less favourable in Victoria than in other States. However, the VAFI believes this issue should also be dealt with in the Review of VicForests.

In addition, the VAFI believes that the TIS should set the development of secondary and expanded markets as priority. The VicForests auction platform could be developed as a marketplace for a range of products including secondary market native timber but also for products from plantations, farm forestry and private native forests. An integrated marketplace could underpin the effective market allocation of wood from across Victoria and support a more vibrant processing sector.

Recommendations:

- ***Revise the objectives for the VicForests Price and Allocation Model so that it ensures 'long-term or sustainable revenue maximisation' and that it 'maintains a competitive market'***
- ***Develop the auction platform as a marketplace for a range of products including secondary market native timber and products from plantations, private native forests and farm forestry***

3.2 We will seek national consistency in the adoption of market-based mechanisms for log-sales, governance and cost-recovery for timber from public native forests

The VAFI strongly supports this proposal

As industry participants in the only State to have moved to a market-based model for the allocation of wood from public native forests, Victorian businesses are now at a significant competitive disadvantage relative to competitor businesses in neighbouring States.

Can the TIS articulate how the Victorian Government intends to achieve this result?

Action 4: Sustainably Develop Timber Plantations and Private Native Forests

Plantations are a commercially viable, environmentally sustainable and economically responsible land use. Plantation development provides a range of future resource opportunities including sawn timber, woodchips and pulp for paper and paper products, energy and carbon sequestration.

Long rotation plantations and private native forests have the potential to strengthen and diversify the long term resource security of the Victorian hardwood industry. Regulatory restrictions and long time horizons for return on investments have been barriers to the development of these sectors. The proposals to address the complexity and inconsistency of the presently onerous planning requirements for plantations and to continue to support taxation arrangements that facilitate investment in plantations as a long-term asset are key to addressing these barriers.

Building domestic processing capacity for plantation timber should be a goal for government as well as industry.

It is important that the TIS clearly recognise the multiple economic, social and environmental benefits that plantations and private native forests can provide. The TIS should focus on improving the policy framework and addressing infrastructure, research and development and capacity building needs to underpin increased activity in these sectors and investments in domestic processing.

4.1 We will continue to recognise timber plantation as an 'as of right' crop-raising activity in the farming and rural activity zones

The VAFI strongly supports this proposal and commends the Victorian Government for making these changes to ensure that plantation establishment is treated on an equitable basis with other rural land uses. In 2005 VCEC had recommended such action be taken.[24]

Our initial submission on the TIS detailed the costs, delays and inconsistent application associated with existing planning and approvals requirements for plantations as did submissions by many others.

The VAFI also notes the continued support for these changes by the VCEC. In the draft report for its current Inquiry into Environmental Regulation in Victoria, the VCEC recommends:

> that the Victorian Government include in the Timber Industry Strategy a new approvals process for the establishment of plantations, in which accredited operators would be deemed to comply with planning provisions. The process should be based on accreditation and ongoing compliance with an enhanced Code of Forest Practice and consistent with best practice principles of regulation.[25]

[24] VCEC (2005) Review into Regulatory Barriers to Regional Economic Development, http://www.vcec.vic.gov.au/CA256EAF001C7B21/0/82E80EEDF3CB4C5BCA25701A001D91C2?OpenDocument

[25] Victorian Competition and Efficiency Commission (2009) A Sustainable Future for Victoria: Getting Environmental Regulation Right, A draft report for further consultation and input, March

4.2 We will introduce new arrangements to assist local government monitor compliance with the Code of Practice for Timber Production on private land

The VAFI strongly supports this proposal.

The plantation industry has endeavoured to work constructively with local governments in the application of planning and approvals requirements for plantations. However, many local governments have limited technical capacity with which to assess plantation developments. This results in some inconsistent application of requirements including the imposition of requirements which conflict with State government policy and referrals to other government agencies and procedures to resolve objections by proponents incur time delays which increase the cost of investment in plantations in Victoria.

This proposal will provide local governments with the capacity to assess plantations for compliance with the Code of Practice for Timber Production on private land on a consistent and reliable basis.

4.3 We will seek a national approach to market-based log-sales, governance and cost recovery for timber plantations

The VAFI supports this proposal. It is important to ensure that Victorian softwood plantations can operate on a level playing field with interstate plantations. The long-term viability and international competitiveness of this sector is adversely affected by current arrangements which provide for forms of State ownership and governance of softwood plantations.

The VAFI suggests the TIS detail how a national approach will be achieved.

4.4 We will offer broad support for Commonwealth Government taxation arrangements that support the comparative neutrality of plantation forestry irrespective of rotation length

Commonwealth Government taxation arrangements have been a driving factor behind much of the recent plantation establishment in Victoria. The arrangements provide an avenue for wider investment in plantation establishment and management and most importantly, they overcome the long time frames for return on investment.

Importantly, arrangements which came into effect in July 2007, remove barriers to investment in long rotation plantations by allowing trading of 'managed investment scheme' plantations, including existing plantations.

Taxation arrangements which support plantation establishment require 70 percent of investor funds to be directly allocated to forestry costs, such a land rental, plantation establishment, tending and harvesting. This provides an assurance to investors that their funds are being directed appropriately.

Victorian Government recognition and support for these arrangements is important for the continuing confidence of investors, particularly given the current economic circumstances which have affected many Australian companies, including some which operate forestry projects.

4.5 Our goal will be to improve the ability of private native forest owners to undertake sustainable timber production

According to the Victoria's State of the Forest Report, there are approximately 350,000 hectares of native forest on private land that are potentially available and suitable for timber production.[26] This could provide a new form of income for landowners and contribute to strengthening Victoria's wood supply base and the socio-economic benefits which it provides.

The potential for private native forest to contribute to the wood supply in Victoria requires investigation. The VAFI supports the Victorian Government's proposal to undertake this work and believes that it should be undertaken as soon as possible as the first step in facilitating greater participation in this sector.

There are several ways the Victorian Government and the TIS can reduce barriers to private native forestry, including:

- Capacity building for sustainable management of private native forests for production and group production and certification;
- Improving regulatory efficiency and ensuring that native vegetation requirements are applied consistently; and
- Developing an integrated market platform through the VicForests PAM.

[26] DSE (2005) Victoria's State of the Forests, East Melbourne

Action 5: Assist the Timber Industry to Adapt to Climate Change

5.1 We will implement agreed outcomes arising from 2.20 of Securing Our Water Future Together regarding the impact of land-use change, including timber plantations, on the water resource (quality and quantity).

The VAFI supports the statement in the Draft TIS that:

> "Victoria will develop an evidence-based, economically efficient and environmentally sustainable approach to address any significant impacts of land use change on water resources under the Action 2.20 project. The broader benefits and impacts of plantations will be taken into account when developing the management tools to reflect Victoria's socio-economic and political landscape."[27]

It is important that the Government take a triple bottom line approach to developing management tools. Plantations provide regional investment and employment, including often a more diversified economic base. They can also provide benefits for water quality, salinity, habitat and carbon sequestration.

The VAFI also commends the Victorian Government for ensuring that all land-uses are considered as part of this project.

It is important that Regional Sustainable Water Strategies are developed in line with the outcomes of Action 2.20, including analysis of policy options. Industry consultation must be an integral part of this process in order to facilitate provision of information and advice, including on the need to avoid perverse outcomes and cooperation where further research is required.

Management tools must incorporate the best available science, including the scale of the impact.

Recommendation:

- ***Ensure Regional Sustainable Water Strategies are developed in line with the outcomes of Action 2.20 of Securing our Water Future and with appropriate industry participation***

5.2 We will implement agreed outcomes arising from Action 2.21 of Securing Our Water Future Together regarding timber harvesting in Melbourne's water catchments.

The current DSE Wood and Water project aims to assess forest management options for Melbourne's water supply catchments; an area which currently supplies 15 percent of VicForests' sustainable sawlog yield. The VAFI supports a scientific and transparent assessment of management options to improve water yield whilst meeting timber supply commitments, including active management for fire prevention and thinning regimes. The minor amount of timber harvesting has a negligible impact on water yield and is consistent with a risk management approach to fire prevention and a sustainable water yield. It also provides substantial socio-economic benefits

[27] Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April, p. 23

and is important in maintaining a level of resource supply which provide sufficient economies of scale for the industry.

It is important to compare the impact of timber harvesting in Melbourne's water supply catchments to the impact of fire. Over the last two decades, about 265 hectares has been harvested each year in catchment areas; 0.17 percent of the total 157,000 hectares.[28] Timber harvesting mimics a bushfire disturbance but on a much smaller scale. At the current rate of harvesting, it would take nearly 180 years to cover the area of the catchments affected by the recent bushfires. There are cases where forest thinning and fuel reduction burning are being applied to forested catchments to increase water yield.[29] Such measures have been considered but not yet adopted for Melbourne's water catchments.

Research undertaken for the Wood and Water project confirms that timber harvesting has a very minor impact on water yield but that thinning operations could improve water yield.[30] Thinning of regrowth could therefore be an important tool for managing water yield following the Black Saturday bushfires.

Climate change and severe bushfire are the most significant threats to water yield in our catchments. Moderate climate change and severe bushfire scenarios are predicted to reduce water yield in the Thomson catchment by 27.2 percent and 22 percent respectively over the next 250 years.[31] The VAFI has long argued the need to mitigate the threat from severe bushfire to our water catchments, most recently in a review of timber production in Melbourne's catchments published in March 2008.[32]

The implementation of Action 2.21 is important to resource security for the forestry industry. Despite the completion of the Sustainability Assessment for timber harvesting regimes, it remains unclear how Action 2.21 will be implemented. For the reasons detailed above in discussions about loss of resource and the impact of fire on the sustainable yield, it must not result in any net loss of forest resource for the industry.

5.3 We will respond to major biophysical risks posed by climate change by improving forest management practices for public native forests and prioritising research and development that aids climate change adaptation in the plantation sector.

Climate change is predicted to have a serious impact on Victoria. Forest management practices must adapt to the increased risk of severe wildfires in the future. The VAFI believes the forestry industry and forestry tools, skills and techniques can play an increased role in forest management for fire mitigation in the future. These activities will be required to protect lives, assets, infrastructure and environmental values as well as timber resources.

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[28] DSE (2008) Harvesting in water catchments – managing resources sustainably, http://www.dse.vic.gov.au
[29] Batini, F., Bradshaw, J. And Underwood, R. (2007) 'Managing forested catchments for water, timber and biodiversity', Proceedings of the 2007 IFA and NZIF Conference, Coffs Harbour, June 2007, pp. 60-65
[30] DSE (2008) Research results for 'Wood and Water project' – using the latest science to develop a future management plan for State forests supplying water to Melbourne, http://www.dse.vic.gov.au
[31] DSE (2008) Research results for 'Wood and Water project' – using the latest science to develop a future management plan for State forests supplying water to Melbourne, http://www.dse.vic.gov.au
[32] Poynter, M. and Featherston, G. (2008) Review of timber production in Melbourne's water catchments, Report prepared for the Victorian Association of Forest Industries, www.vafi.org.au

There is a gap in our knowledge about the impacts of climate change on forest health and productivity. The VAFI supports a research and development program which responds to this information gap and the risks associated with climate change.

The VAFI supports this proposal. We suggest the Victorian Government consult research institutions, VicForests and the Victorian forestry industry in designing and undertaking changes to research and development activities and changes to forest management practices. It would be beneficial for the Victorian Government to initiate a project for this purpose so that the response is coordinated and effective.

5.4 We will continue to implement fire prevention strategies in light of the outcomes of the Royal Commission into the 2009 bushfires.

Victoria has now endured three catastrophic bushfires in the last seven years. Many of the areas affected by the 2009 bushfires are at the heart our industry. The immediate personal and commercial losses are substantial. It is estimated that over 10 percent of the industry's current sustainable yield from native forests has been burnt along with 20,000 hectares of plantations. The impact on the future wood supply is far-reaching, with VicForests conservatively estimating the value of the standing timber burnt at over $600 million. It is important that timber resources are protected through future fire mitigation policies and actions.

The VAFI made a submission to the 2009 Victorian Bushfires Royal Commission.[33] The VAFI submission highlights the significant role the forestry industry plays in fire management and suppression. The native forest and plantation sectors from Victoria and interstate contributed hundreds of personnel and hundreds of vehicles and pieces of equipment to suppression of the February 2009 bushfires. The contraction of the Victorian native forestry industry has had a negative impact on Victoria's fire management capacity, including maintenance of appropriate human resources, equipment and access for fire suppression.

The submission also describes the role of forestry as a tool for forest fire management. The activities and skills of the industry are not limited to commercial harvesting of timber but include ecological forest thinning, biomass management to reduce fuel levels, forest regeneration and restoration, roading and infrastructure and first attack fire response. The VAFI believes the commercial forestry is consistent with a risk minimisation approach to fire management and that skills and resources unique to the forestry industry can be used more widely for active fire management across the landscape.

[33] Victorian Association of Forest Industries (2009) 2009 Victorian Bushfires Royal Commission, Submission by the Victorian Association of Forest Industries, http://www.vafi.org.au/documents/090520%20Bushfire%20Submission%20FINAL.pdf

Action 6: Improve freight infrastructure and logistics to support the timber supply chain

6.1 We will work in partnership with the Commonwealth Government to develop new infrastructure at a national and regional level that facilitates sustainable development of the timber industry.

The VAFI supports the development of new infrastructure at a national and regional level that facilitates sustainable development of the industry. Freight infrastructure is crucial to the ability of the industry to capitalise on investment opportunities.

The VAFI commends the $340 million investment in Green Triangle road and rail upgrades through the collaboration with the South Australian and Australian governments. [34] The 'Green Triangle' Freight Action Plan which is under development is a key step in maximising the socio-economic value of the forestry industry in this region. The successful completion and implementation of this plan is vital to industry growth.

The VAFI notes however, that the Draft TIS does not discuss the funding for timber roads provided under the Rural Local Timber Road Program. The Timber Industry Roading Evaluation Study (TIRES), which was commissioned by Timber Towns Victoria in 2001 as a joint project with industry, local councils, the community and State government agencies identified targeted road projects which could address major constraints to growth and efficiency of the Victorian timber industry.

In 2005, Timber Towns Victoria undertook a Local Roads Funding Strategy, which reviewed the progress in providing funding for projects identified in TIRES and re-evaluated needs and project priorities. The Strategy identified a total of 133 timber roads projects as strategically high priority projects that required an immediate collective investment of over $40 million to provide maximum benefits to the timber industry and other industry and community road users.[35]

Despite the constant funding for roads provided by industry and the funding provided by the Victorian Government for TIRES road projects, there is an ongoing need to upgrade and maintain freight infrastructure across the State. The VAFI believes there remain TIRES priority projects which have not been funded as well as a need to keep adapting the timber road strategy to account for projects completed and industry changes.

Cost effective and suitable transport infrastructure is a key element of realising the value of our plantation and native forest resources.

Recommendations:

- ***Establish a collaborative mechanism for consideration of and funding for ongoing infrastructure upgrade and maintenance across the State. TIRES and the Local Roads Funding Strategy should provide base information***

[34] Infrastructure Australia (2009) National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future, May, http://www.infrastructureaustralia.gov.au/files/National_Infrastructure_Priorities.pdf

[35] Timber Towns Victoria (2008) Timber Industry Strategy for Victoria, Submission, http://www.dpi.vic.gov.au/dpi/nrenfa.nsf/LinkView/C07ED32A276D6BA0CA25746B001F15312B72296A5108C4FFCA25734F0009F96F/$file/Timber%20Towns%20Victoria.pdf

Action 7: Facilitate the development and commercialisation of new and emerging markets for timber and timber-related products

The development and commercialisation of new and emerging markets is essential for the future growth, diversification and competitiveness of the industry.

Carbon trading under the Commonwealth Government's proposed Carbon Pollution Reduction Scheme (CPRS) and a potential extension of the carbon market for forests and forestry, including recognition of the carbon stored in harvested wood products will provide new commercial opportunities.

The use of wood residues for renewable energy has been slower to take off in Victoria than in other states in Australia and most notably in Europe and the United States (US). It is important that the TIS builds a strong platform for investment in bioenergy in Victoria and facilitates the use of wood resides for this purpose.

The development of markets for renewable energy also provides opportunities for resource efficiency. We believe there are opportunities for the Victorian Government and industry to work together to facilitate a greater level of product stewardship.

7.1 Victoria will continue to work alongside the Commonwealth Government to improve the understanding of the implications of the Carbon Pollution Reduction Scheme for Victoria's timber industry

The CPRS will provide potential opportunities for productive timber plantations and planted forests established for carbon sequestration and other environmental purposes on cleared land from 1 January 1990 onwards.

However, there is a clear need to facilitate an understanding of the eligibility criteria and rules for participation, including the potential benefits and risks of participation for businesses and individuals who may wish to participate.

There is also likely to be an ongoing need to provide advice to participants and prospective participants about the CPRS and carbon markets generally.

The national Renewable Energy Target (RET) scheme and a rising price for carbon should also provide incentives and opportunities for new markets for the use of wood for energy production (bioenergy and biofuels). It is important that the Victorian Government looks to how to link these national initiatives with potential opportunities for supplying Victoria's energy needs and with other markets for environmental services that might provide co-benefits.

As noted in the Draft TIS, the international rules for land use, land use change and forestry (LULUCF) are under negotiation as part of agreement for a post-2012 international framework to address climate change. It is important that the Victorian Government and forest industry stakeholders understand the options under consideration and their domestic linkages for both the negotiations in the lead up to the Copenhagen Summit in December 2009 and beyond. There is a role for the Victorian Government and forest industry stakeholders to provide advice to the Australian Government on the domestic linkages including implications, opportunities and risks.

And there is a role for the Victorian Government and forest industry stakeholder to work to understand the impacts of changes agreed to the international rules for forests and forestry under the climate change framework and to work with the Australian Government to implement these in an appropriate way.

Recommendations:

- ***The Victorian Government play an ongoing role in building the capacity of industry, and particularly small industry participants, in understanding the opportunities, risks and implications of participating in the CPRS***
- ***The Victorian Government cooperate with the Australian Government on a technical level to improve the effectiveness of the national carbon accounting modelling, including development of parameters for Victorian circumstances***
- ***The Victorian Government take an active role in liaising with the Australian Government and the forestry industry to understand the implications of potential rules for forestry under a post 2012 international climate change framework and the domestic application options for agreed international rules***

7.2 We will continue to advocate to the Commonwealth Government for the inclusion of carbon stored in timber products in the international climate change framework

The VAFI agrees that accounting for carbon stored in harvested wood products is a complex area. It is important that a Victorian Government proposal in this area support the long term direction of the industry.

There are several different options for accounting for harvested wood products which are on the table and being negotiated at the international level in Bonn on 1-12 June 2009 and in subsequent negotiations in Bonn in August and two other sets of negotiations in the lead up to the Copenhagen Summit in December.

The negotiations on this issue are moving quickly. Therefore any additional research on the options needs to be completed immediately and provided to the Australian Government or it will need to take the progress or outcomes of the international negotiations into account and focus on how the international rules might be translated to a domestic setting.

It is vital that any rules for accounting for carbon stored in harvested wood products which are translated and implemented domestically are as simple as possible and provide incentives for the use, reuse and recycling of sustainably produced wood and wood-based products.

The VAFI believes that product stewardship and the facilitation of greater reuse and recycling of timber and timber-related products is consistent with this approach. We believe there are opportunities for the Victorian Government and industry to work together to facilitate a greater level of product stewardship.

Recommendations:

- ***The Victorian Government support the Australian Government's efforts to appropriately include carbon stored in timber products in the international climate change framework and where that is achieved, support development of options for the domestic application of those rules***

- ***The Victorian Government provide support to industry to facilitate a greater level of product stewardship***

7.3 We will support a national approach to the use of native forests for energy production, consistent with the Commonwealth Government's expanded national Renewable Energy Target scheme

The VAFI agrees with the Draft TIS that "There is potential to generate a better economic, environmental and community value for lower-quality native hardwood logs that are a genuine by-product of sustainable sawlog harvesting by selling the resource into alternative markets, such as for the production of charcoal or bioenergy."[36]

As noted in the VCEC draft report, biomass should be a cost competitive form of renewable energy. According to the Department of Climate Change's National Greenhouse Account Factors, every tonne of dry wood burned as bioenergy in place of brown coals displaces 0.93 tonnes of CO2e emissions.[37]

Bioenergy can play a considerable role in meeting Victoria's energy needs in a carbon-constrained world. However, this source of renewable energy remains under-utilised.

According to the Bioenergy Roadmap published by the Clean Energy Council, utilisation of wood related wastes could realistically supply 2,948 gigawatt hours per annum by 2020, with all forms of bioenergy supplying approximately 11,000 gigawatt hours.[38] This represents a contribution of 20 percent to the Australian Government's target of 60,000 gigawatt hours of renewable electricity generation and about 4 percent of Australia's estimated electricity demand. The Roadmap notes this is still far behind leading European countries which already generate 14% of their electricity from bioenergy.

The Government can also facilitate the uptake of bioenergy through the provision on public information to promote the environmental, economic and social benefits of bioenergy.

The Bioenergy Roadmap states the need to ensure that bioenergy is treated equitably in all matters of policy when compared to other renewable is a key objective in maximising Australia's bioenergy potential.

Under the expanded National Renewable Energy Target scheme (RET), wood and wood waste will be eligible for renewable energy credits, subject to regulatory restrictions which include a high value test for wood waste from native forests such that the primary product must be higher in financial value than all the total value of the other products of the harvesting operation.

The VAFI seeks a commitment from the Victorian Government to ensure that native timber residues can be eligible for renewable energy certificates under the existing Victorian Renewable Energy Target scheme (VRET), as we cannot be confident in the short to medium term timing of the implementation of the new RET arrangements.

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[36] Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April, p. 30

[37] Department of Climate Change (2008) National Greenhouse Accounts Factors, February, http://climatechange.gov.au.au/workbook/index.html

[38] Clean Energy Council (2008) Australian Bioenergy Roadmap: Setting the direction for biomass in stationary energy to 2020 and beyond, September, http://cleanenergycouncil.org.au

The VAFI believes the regulatory requirements for the RET must be reviewed to allow wood wastes already covered by existing frameworks such as the RFAs to be accepted within the scheme.

There are opportunities for the Victorian Government to advocate such a change in the development of the Commonwealth Government's Energy White Paper which will set out a national energy policy framework. The VAFI believes the Victorian Government should also utilise opportunities to amend the regulations underpinning the RET to remove regulatory barriers to the sustainable use of wood residues for renewable energy.

It is important that the Victorian Government ensure that funding for renewable energy is made available to the development of projects for biomass energy and for biofuels. There are currently a number of Victorian and Australian Government renewable energy funds which do not treat bioenergy equally to other forms of renewable energy.

Finally, it is important to recognise that many sawmillers, and other industries, already make a significant contribution to the renewable energy use, through their conversion of biomass residues to generate thermal energy for their own use, displacing use of fossil fuel electricity or gas sources.

Until national mechanisms are developed to measure and account for the contribution of all uses of biomass based energy, not just energy which is exported to the electricity grid, the role of biomass in the renewable energy target will be significantly understated. This is likely to have a negative stimulatory effect on the use of this form of energy, when by contrast, there are many examples of biomass based technology for both industrial and community thermal energy generation and local reticulation that have been actively supported and encouraged in Europe and other countries.

Recommendations:

- ***The Victorian Government ensure VRET rules are amended to be consistent with the stated policy objective of allowing native timber residues to be used in bioenergy production and allowable recipients of renewable energy credits***
- ***The Victorian Government actively promote a change to national regulatory requirements for the RET to allow wood wastes already covered by existing frameworks such as the Regional Forest Agreements (RFAs) to be accepted within the scheme***
- ***The Victorian Government should facilitate the uptake of bioenergy through the provision on public information to promote the environmental, economic and social benefits of bioenergy***
- ***Victorian Government must ensure that funding for renewable energy is made available to the development of projects for biomass energy and for biofuels***

7.4 We will prioritise research to explore the potential use of wood for biofuel production

The VAFI strongly supports this proposal to prioritise research to explore the potential use of sustainably produced wood as a source for biofuels.

Biofuels have significant potential environmental, economic and social benefits as an alternative to fossil fuels. In particular, the use of wood for biofuel production could provide investment, jobs and growth in regional economies, benefits for lowering greenhouse gas emissions and support energy security.

As discussed in proposal 10.1 below, we believe a research program should be detailed and appropriate funding identified.

Action 8: Support market access and improve biosecurity for sustainable timber production

8.1 We will require government and government endorsed procurement and sustainability guides to recognise international third-party certification as meeting the highest possible environmental standards

The VAFI strongly supports this proposal. Market access for Victorian timber products is crucial to the success of our industry. Forest management in Victoria is undertaken according to strict regulatory controls and transparent and accountable audit systems. The VAFI believes that the high regulatory benchmark in Victoria is important for public confidence in management of public native forests. We believe that compliance with regulatory requirements for forest management in Victoria demonstrates a high standard of environmental management.

The decision for plantation and private native forest growers and VicForests to apply for certification under a market-based system for responsible forest management certification is voluntary. Two internationally recognised third-party schemes for responsible forest management operate in Australia; the Australian Forest Certification Scheme (AFS) and the Forest Stewardship Council (FSC) Australia. Forest certification provides an assurance that the forest is managed in accordance with an independent standard for forest management in addition to regulatory requirements.

VAFI supports forest certification as a market-based instrument used to indicate that a product is sourced from a forest which is managed in compliance with a standard for good management. Furthermore, we recognise the role of forest certification as a tool for continuous improvement of forest and organisational management and to create awareness among consumers of forest management issues.

Some consumers or businesses may favour one certification scheme over another based on personal or organisational preference, price or other reasons.

However, the VAFI believes it is both anti-competitive and discriminatory for the Government or an agency of the Government to favour one internationally recognised certification over another. Government must remain objective and not-discriminate between market-based schemes.

The VAFI commends this proposal as demonstrating best practice in government procurement.

8.2 We will develop a Forests and Timber Biosecurity Framework

The VAFI supports this proposal. As stated in the Draft TIS, our capacity to respond to biosecurity threats is limited. The VAFI believes that exotic pests and diseases pose a threat to forest health and productivity. This threat may increase under predicted climate change impacts.

The VAFI believes it is appropriate and important for a Forests and Timber Biosecurity Framework to be prepared by Biosecurity Victoria. We believe broad consultation with industry, research institutions and non-governmental organisations will be beneficial to the preparation of the framework.

Action 9: Strengthen governance arrangements and administration for forests and timber production

As discussed above, the VAFI believes that best practice in governance and regulation is for the separation of the land management, regulation and policy functions for management of native forests. Whilst not the optimal model, the model proposed in the Draft TIS is better than current arrangements. Within the model proposed, the VAFI believes the VicForests should have responsibility for land management and forest inventory and that regulatory efficiencies should be made.

9.1 We will improve the governance and administration of VicForests

The VAFI strongly supports this proposal.

The VAFI believes that VicForests' Charter is currently too narrow to ensure a robust and sustainable industry in the long term, focussing purely on being an economic entity without an appreciation that its policy implementation can adversely affect the industry.

There is a need to review the focus, direction, governance and administrative arrangements of VicForests. As highlighted in the discussion on proposal 3.1, the VAFI believes the objectives, methodology, operational structure and administration of the Price and Allocation Model should be reviewed. There are a number of specific operational improvements which could significantly improve business confidence.

As discussed in 1.5, the terms of supply for Victorian native forest produce, including term and security of supply is inconsistent with arrangements in other States, placing Victorian processors at a competitive disadvantage. VicForests' terms of supply and communication arrangements, including public communication and information on how commercial forest management is undertaken in public native forests and benefits it provides should form part of the review.

The review should also create a base for VicForests to improve the efficiency and effectiveness of its current operations and set a base for it to provide a wider range of products and services in the future.

The VAFI and its members believe this review is timely and essential to moving the industry forward within the framework set by the TIS. We propose that a Steering Committee with cross-representation from Government, the Construction, Forestry, Mining and Energy Union (CFMEU) and the VAFI oversee an independent review and report back to Government. Any other process may not have the industry's confidence in the outcomes.

Recommendations:

- ***The VicForests Review must include the VicForests' Charter, the Price and Allocation Model, terms of supply, communication with customers, public communication and the scope of products and services that can be provided by VicForests as part of a more integrated and innovative forestry industry***
- ***A Steering Committee with representation from Government, the union and the VAFI be established to oversee the independent review of VicForests and report back to Government***

9.2 We will create a Forest Practices Unit within the Department of Sustainability and Environment to streamline the implementation of the Code of Practices for Timber Production on public and private land

The VAFI believes that a Forest Practices Unit could provide an important technical and governance role.

However, we believe it is consistent with best practice for standards and conformance and governance that the functions of standards development and accreditation be separated. This separation is recognised internationally through the International Organisation for Standardisation (ISO) and is exemplified through the governance structures of forest certification schemes.

For this reason, we recommend that the development and revision of the Code be undertaken by an independent technical working group.

The Forest Practices Unit would be the body responsible for 'accrediting' the Code then meets the Sustainability Charter and Victorian Government policy. It would also be responsible for accrediting 'Accredited Forest Practitioners (who implement or evaluate the Code) and monitoring and enforcing the Code on Public Land.

The Forest Practices Unit should report on the level of code compliance to both the Minister for Environment

The VAFI believes that an independent technical advisory panel would be highly valuable.

Recommendation:

- ***Standard setting and accreditation functions be separated under the Forest Practices Unit model. The Code should be developed and reviewed by an independent technical working group. The Forest Practices Unit would be responsible for 'accrediting' the Code and 'Accredited Forest Practitioners' and monitoring and enforcing compliance***

9.3 The Minister for Agriculture will continue to be responsible for commercial forest policy

As noted above, the VAFI believes the functions of and responsibilities for land management, regulation and policy should be separated to provide regulatory efficiency and better policy outcomes.

The VAFI believes the Minister for Agriculture is the appropriate Minister to be responsible for commercial forest policy. This provides consistency to commercial forest policy across the industry and builds on the significant skills of DPI and the Ministry in delivering leadership and oversight to VicForests and the private forestry sector.

The VAFI believes the environmental policy role of DSE and the Minister for Environment and Climate Change is vital to the environmentally responsible operation and continuous improvement of the native forestry sector.

The VAFI encourages all agencies to work constructively and cooperatively to ensure that we continue to maintain and enhance Victoria's world-class sustainable forest management framework and practice. The VAFI believes there is a role of all agencies to work constructively to provide correct and objective information to build public understanding and promote a positive dialogue on forest management in Victoria.

Action 10: Encourage industry innovation and research and development (R&D)

10.1 We will prioritise existing and future research and development efforts in the areas of:

- **Climate change and adaptation (including water and fire)**
- **Biosecurity (including emerging pest and disease risks)**
- **Socio-economic impacts (including land-use change)**
- **Industry productivity and innovation (including improving recovery of timber from small diameter logs)**

The VAFI strongly supports this proposal. These areas reflect current and future challenges and opportunities for the Victorian forestry industry which require a concerted research and development (R&D) effort to fully address.

The VAFI believes that the Victorian Government's R&D priorities must be detailed and an appropriate program devised and potential funding sources and avenues to undertake the R&D identified. It is important that these R&D activities are part of an overall strategy to ensure they are achieved.

Recommendation:

- ***A detailed and appropriate R&D program is detailed and potential funding sources identified***

10.2 We will consider providing co-funding with industry towards national programs that are consistent with our research and development priorities

The VAFI believes there are significant public benefits where projects are co-funded between industry and Government. The availability of co-funding from Government can often shape industry research or investment to meet public research, environmental, social or economic priorities as well as providing private benefits.

In addition to providing co-funding towards national programs, the VAFI believes that the Victorian Government should also co-fund research and development projects that meet its R&D priorities.

Action 11: Improve industry occupational health and safety

11.1 We will encourage improved levels of occupational health and safety compliance through the adoption of best practice consistent with Worksafe Victoria's industry standards

The VAFI supports this proposal. Our members support occupational health and safety as a priority for the processing sector and the role of Worksafe Victoria as the manager of Victoria's workplace safety system.

We recognise the need for continuous improvement including improved consistency in compliance in the application of occupational health and safety standards across the sector.

11.2 We will ensure that the Forestry Industry Council continues its current role to reflect best practice occupational health and safety standards in contract arrangements under the Owner Drivers and Forestry Contractors Act 2005

The VAFI supports this proposal.

Action 12: Build a safe and skilled workforce

12.1 As a recognised Skills Victoria Industry Training Advisory Body, we will work with Forestworks to improve coordination of training and skills development for the timber industry

The VAFI supports this proposal. The coordination of Government agencies with Forestworks is required to develop a strategy to address skills and labour shortages, build the capacity of training institutions, develop structured career paths, training plans and skills recognition programs that can be expanded to reflect new technologies.

Government partnerships with Forestworks and industry are required to improve the availability and effectiveness of workplace training and could provide valuable outcomes for the industry.

It is important that this coordination results in a strategy with appropriate resources to assist its implementation rather than ad hoc liaison or advice.

12.2 We will encourage Indigenous participation in Victoria's timber industry

The industry supports the development of opportunities for Victorian indigenous forestry employment. Although, the incorporation of improved opportunities for indigenous Victorians through broader employment and training needs audits is required. The VAFI believes that additional, specific efforts are required to provide for indigenous participation in Victoria's timber industry.

12.3 We will ensure that forest industry training courses are adopting best practice in line with occupational health and safety industry standards

The VAFI supports this proposal. Occupational health and safety is a crucial part of all training for the forest industry.

Action 13: Enhance community understanding of the benefits of Victoria's forests

13.1 We will explore options for research into forestry and land-use change

Although the plantation sector has increased over the past 50 years in Victoria, it remains a relatively small user of rural land. However, the VAFI recognises that the change in use of rural land to plantations from other agricultural activities has social, economic and environmental impacts.

The study on 'Socio-economic impacts of land-use change in the Green Triangle and Central Victoria' is a valuable piece of research.

The VAFI believes that such research can assist planning, management and community relations for plantations. It also provides a good base for dialogue with local communities, agricultural stakeholders and the Victorian Government.

13.2 In the longer term, we will develop a Farm Forestry Plan for Victoria, in close consultation with key farm forestry groups

The integration of tree growing into farming systems and the rural landscapes can provide multiple benefits including timber, stock shelter, carbon sequestration and other environmental outcomes.

A Farm Forestry Plan for Victoria is important and the VAFI believes that it should be developed in the short to medium for implementation and continuous improvement over the long term.

13.3 We will work with industry and other key stakeholders where appropriate, to improve the community's understanding of Victoria's productive, competitive and sustainable timber industry

The VAFI supports this proposal. We agree that there is a clear role for Government in gathering and providing information about sustainable forest management in Victoria.

The work of Forest and Wood Products Australia is a well researched, well articulated and successful communication initiative. The VAFI undertakes research, communication and education activities as do other organisations including Timber Communities Australia.

The VAFI believes that a collaborative initiative and effort to provide objective and correct information about Victorian forest management and wood products would be very effective. There is also scope for a greater level of cooperation between industry, government and research institutions to build the use of the Toolangi State Forest Discovery Centre.

The VAFI stands ready to work with the Victorian Government and other stakeholders to improve the community's understanding of the Victorian timber industry.

13.4 We will continue to make firewood available to meet the heating needs of Victorians

Firewood is a renewable, carbon neutral source of heat energy. The VAFI believes this point should be fully recognised in the TIS.

DSE are currently developing a Firewood Strategy for Public Land in Victoria. This Strategy will be important for ensuring we can meet the demands of Victorians for firewood through an efficient and practical pricing and distribution system.

At present, there is insufficient firewood supply from Victorian public land to meet the demand levels of Victorians.

The commercial supply sector, which makes up at least 50 percent of total supply, obtains the vast majority of its firewood from the NSW Riverina. Despite the obvious freight disadvantages involved, this is because Victorian government policies and forest management processes have progressively reduced access to good quality firewood species, in direct contrast to the approach taken by Forests NSW where the harvesting of firewood from sawlog operations and ecological thinnings is recognised for its economic and environmental benefits.

The future supply of firewood from NSW cannot be guaranteed and it is important that the TIS recognise that we currently cannot supply the heating needs of Victorians based on the supply from public land in Victoria.

As it stands, this proposal places too much emphasis on self-collection without recognising its health and safety, economic and environmental limitations. Along with its support for the commercial use of biomass for renewable energy generation, the TIS should support the increased commercial harvesting and distribution of firewood from public land as being more efficient, more transparent and accountable than self-collection, and as a better revenue generator for government.

Recommendation:

- ***The VAFI believes that the final TIS must recognise the role of firewood in providing a renewable and greenhouse friendly source of heating. It must also recognise the role of the DSE Firewood Strategy for Public Land in Victoria as well as the need for other sources of firewood supply in Victoria to meet our heating needs***