



## **SUBMISSION**

### ***Progress and Implementation of the Victorian Regional Forest Agreements (RFAs)***

East Gippsland RFA, Central Highlands RFA, North East RFA, West Victoria RFA and  
Gippsland RFA

***February 2010***

## **Introduction**

The Victorian Association of Forest Industries (VAFI) appreciates the opportunity to comment on the Draft Report on Progress with Implementation of the Victorian Regional Forest Agreements (RFAs).

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 believe the RFAs are the cornerstone of responsible and adaptive management and conservation of Victoria's forests and of the growth of and socioeconomic benefits from forest-based industries.

We are pleased that this review of progress and implementation is being undertaken. The timely, open and effective review of the RFAs is imperative to improving and maintaining community and industry confidence in the RFAs as well as to support the ongoing framework for resource security and future investment in the forest industry.

## **The importance of the Regional Forest Agreements**

The Regional Forest Agreements evolved from a decade long process of review, consultation and negotiation.

They embraced the concept that sustainable development and environmental conservation are interdependent, not mutually exclusive. We believe they are a model for regionally-based, integrated natural resource management (NRM).

The key to the RFAs was sound science and public consultation. They also provided for ongoing research and adaptive management. A system of permanent and transitory reserves allow for flexibility in management as values change, while maintaining net areas of multi-use forest and conservation reserves.

The Agreements created a very high level of conservation of native forests by global standards and improved the security, management standards and scientific basis for forest management.

A key objective of the RFAs was also to create resource security and certainty for the growth of internationally-competitive forest-based industries, and thereby employment and socioeconomic benefits for communities. Victoria's forest industries employ approximately 25,500 people.<sup>1</sup> Investment, innovation and productivity rely on resource security and a conducive policy framework.

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<sup>1</sup> State Government of Victoria (2009) 2009 Victoria's Timber Industry Strategy, [http://new.dpi.vic.gov.au/\\_data/assets/pdf\\_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf](http://new.dpi.vic.gov.au/_data/assets/pdf_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf)



The RFAs provided a rigorous environmental planning framework for timber production. Harvesting in available areas of State forest is strictly regulated to maintain environmental safeguards, a sustainable level of production and public auditing of performance.

The RFAs are dynamic agreements that improve forest management through monitoring and continued scientific assessment.

The VAFI believe the RFAs were a unique and highly successful process, which provided a platform for ongoing responsible and adaptive management of forests, research, continuous improvement and industry development.

## **Progress against milestones and obligations**

### **Overarching comments**

#### ***Forest industries commitment to the RFAs***

The VAFI and its members are committed to the RFAs and their future implementation and advancement. We believe Victoria's forest industries have complied with the RFAs, including sustainable harvest levels, forest management requirements and industry development.

While the RFA process overestimated the sustainable timber yield in the forest available to industry, it also foreshadowed reviews, which subsequently occurred in 2001/02. This resulted in a 30% reduction in the sustainable yield, at some cost to Government, the industry and the community. The sustainable yield methodology was reviewed again in 2007/08.

As stated, in the Draft Report, Victoria's forest industries have made significant investments over the last decade in processing technologies and practices, productivity improvements, markets and plantations. However, we believe that industry development has been constrained by resource reductions which were not in accordance with the RFAs, sovereign risk associated with resource uncertainty and industry consolidation.

VicForests, the State-owned enterprise, plantation growers and processors have demonstrated a commitment to continuous improvement through voluntary forest certification. The regulatory framework, including public audits provide for responsible and accountable planning and management and transparent performance.

#### ***Government recommitment to the RFAs***

The Timber Industry Strategy reaffirmed the Victorian Government's "commitment to the regional communities and employment opportunities associated with a secure, long-term timber industry."<sup>2</sup>

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<sup>2</sup> State Government of Victoria (2009) 2009 Victoria's Timber Industry Strategy, [http://new.dpi.vic.gov.au/\\_data/assets/pdf\\_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf](http://new.dpi.vic.gov.au/_data/assets/pdf_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf)

There have been a series of political decisions in Victoria which have undermined the RFAs and limited the extent to which predictability and industry growth has been achieved. This is a major issue and has led to the resource base for industry being undermined by decisions which were inconsistent with the sustainable development principles of the original agreements.

The VAFI also believes there are issues with public perception of the RFA process that has led to a lack of community confidence in the RFAs, which needs to be addressed through appropriate communication and demonstration of monitoring, compliance and performance.

We are at a critical time with less than 10 years left for many of the Victorian RFAs. The industry needs longer term certainty for ongoing and future investment decisions that will underpin the longer term development of the industry.

We believe that the Victorian Government must recommit to the RFAs and provide a legislative base for certainty for wood supply as well as the commitments outlined in the Timber Industry Strategy.

The VAFI look forward to participating in the next review and the development of a process to renew and modernise the RFAs. We note the recent bipartisan support in Tasmania to commence negotiations immediately with the Commonwealth Government on 'evergreen' or rolling RFA arrangements, that would provide a minimum of 15 years security at any one timber based on ongoing five yearly reviews.

The RFAs are highly successful examples of landscape scale models for adaptive natural resource management and sustainable development. Their renewal is critical to the long term achievement of conservation and industry development goals. Forest and forestry industry policies must continue to be grounded by the RFAs. The VAFI believes that NRM policy reforms associated with the Land and Biodiversity White Paper are consistent with the regional approach of the RFAs and the implementation of White Paper actions should integrate with ongoing implementation of the RFAs.

### ***Adaptive and integrated forest management at the landscape level***

One of the most important aspects of the RFAs is the landscape approach to forest management. The VAFI believes that this approach supports management of Victoria's public forest estate for the full range of environmental, social, cultural and economic values through active management and monitoring of the entire estate.

The CAR reserve system supports the management of some areas primarily for conservation and others for multiple uses but the system is adaptive and responsible forest management applies across the estate. This is a key requirement for future land and fuel management for fire and for adapting to the risks of climate change, including the impacts on threatened species.



### ***Appropriate monitoring and management of the entire public forest estate***

To this end, it is important to keep perspective on the amount of land available for and subject to timber production as part of the public native forest estate. Environmental and sustainability policies and detailed monitoring systems have been developed and applied specifically for State forest and specifically for timber production areas. Given that 3.5 million hectares (45%) of the public native forest estate is in conservation reserves, only about 10% of the estate is available for timber harvesting and less than 1% of the estate is subject to timber production each year, such policies and monitoring need to be applied across the entire estate to provide the appropriate level of management and performance.

The VAFI believe that we need to manage the entire public native forest estate in an integrated way across the landscape for economic, social, cultural and environmental outcomes as part of an ESFM framework. We believe that focusing on a small portion of the landscape cannot provide an adequate picture of environmental outcomes in particular.

### **Relationship to statutory obligations**

The VAFI believes that statutory obligations listed in the RFAs have generally been met. However, the Victorian Government did not meet its statutory obligations for the West Victoria RFA.

In particular, we note that the Commonwealth Government passed legislation to support the export of wood products, including woodchips from RFA areas, and legislation to give effect to obligations under the RFAs, including exemption of RFA forestry operations from Part 3 of the Environment Protection and Biodiversity Conservation Act 1999 (Cwth).

We note that the Draft Report identifies that the obligation for the Commonwealth to promote endangered species protection and that this involves ongoing cooperative work with Victorian agencies. We believe that the recommendation of the Hawke Review of the EPBC Act for a single list of threatened species through accreditation of state and territory listing processes (Recommendation 5) could improve the efficiency of how this obligation is met in the future.

The Victorian Government has developed a rigorous and adaptive regulatory framework for State forests, including the Environmental Policy for Victoria's State Forests, the Sustainability Charter for Victoria's State forests, Forest Management Plans, Wood Utilisation Plans, requirements under the Allocation Order to VicForests, Timber Release Plans, and the Code of Practice for Timber Production.

Victoria has largely separated its commercial forestry activities for the majority of State forests from the broader policy, strategic planning and regulatory functions. However, it has not clearly separated its forest management, policy and regulatory functions. DSE remains responsible for all three. As the Victorian Competition and Efficiency Commission (VCEC) recommended in its draft report on environmental regulation that the Victorian Government consider separating land management, regulation and policy mechanisms for



delivery by separate agencies.<sup>3</sup> The final report considered that changes under the Victorian Timber Industry Strategy (TIS)<sup>4</sup> will provide an opportunity for better functional separation: Action 1.3 of the TIS provides for VicForests to undertake forest management activities through Working Forest Plans agreed by the Ministers for Environment and Climate Change and for Primary Industries.<sup>5</sup> However, the VAFI believes that the institutional arrangements remain inefficient, with DSE and VicForests duplicating activities; uneconomic, with VicForests highly restricted in its ability to manage State forest areas for timber production as well as other values such as bushfire mitigation; and lacking an integrated, performance-based framework which applies across all public land.

Commercial forestry operations have not been separated from policy and regulatory functions in some areas of Victoria. This should occur as part of the broader separation of functions between forest management, policy and regulation.

The VAFI believes the Victorian Government did not meet its obligations under clause 19 of the West Victoria RFA, which states, “Neither Party will seek to use existing or future legislation to undermine or impede this Agreement.” As stated in the Draft Report, this action was not consistent with the RFA and did cause a net loss of resource.

## **Milestones**

The VAFI believes that the initial annual reporting requirements were met but that the important five year review was not. This is discussed below.

## **Five yearly review**

The VAFI believe that the ‘delay’ of the first five year review of the Victorian RFAs was a highly regrettable decision by the Victorian Government. We believe that RFA reviews should be conducted as required, in spite of any reforms or policy activities being undertaken at the time. The five yearly reviews are vitally important for the transparency and accountability of and public confidence in the RFAs.

The decision to undertake the five and ten year reviews simultaneously is appropriate given the circumstances. The independence and transparency of the review process is important for all stakeholders.

It is important that the 15-year review is both conducted in a timely manner and is preceded by careful consideration of the future extension or renewal of the Agreements as part of a nationally coordinated process.

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<sup>3</sup> Victorian Competition and Efficiency Commission (2009) A Sustainable Future for Victoria: Getting Environmental Regulation Right, A draft report for further consultation and input, March

<sup>4</sup> State Government of Victoria (2009) 2009 Victoria’s Timber Industry Strategy, [http://new.dpi.vic.gov.au/\\_data/assets/pdf\\_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf](http://new.dpi.vic.gov.au/_data/assets/pdf_file/0011/14150/TIS-Revised-Version-21-Dec-09.pdf)

<sup>5</sup> Victorian Competition and Efficiency Commission (2009) A Sustainable Future for Victoria: Getting Environmental Regulation Right, Final Report, [http://www.vcec.vic.gov.au/CA256EAF001C7B21/WebObj/ASustainableFutureforVictoria-GettingEnvironmentalRegulationRight/\\$File/A%20Sustainable%20Future%20for%20Victoria%20-%20Getting%20Environmental%20Regulation%20Right.pdf](http://www.vcec.vic.gov.au/CA256EAF001C7B21/WebObj/ASustainableFutureforVictoria-GettingEnvironmentalRegulationRight/$File/A%20Sustainable%20Future%20for%20Victoria%20-%20Getting%20Environmental%20Regulation%20Right.pdf), p. 393

## **Ecologically sustainable forest management**

Each of the RFAs provide for ecologically sustainable forest management (ESFM).

The VAFI believes that ESFM is the integral framework for policy, planning, management and implementation of forest management.

We support the commitment to ESFM and to continuous improvement in forest management practices across State forests, parks and reserves. We agree that the key elements for achieving it are the establishment of a CAR reserve system, the development of internationally competitive forest products industries, and implementation of a fully integrated, strategic, and adaptive forest management system. The last element is vital. It must be performance based and applied across all State forests, parks and reserves.

### ***Development of internationally competitive forest products industries has been undermined***

We believe that the second element of ESFM is currently not being achieved. We recognise the release of the TIS in 2009, which aims to provide a long term framework for the sustainable development of the forest industries. However, the success of the TIS will ultimately depend on its resourcing and implementation.

As discussed below (Industry development), Victoria's hardwood processing sector has lacked the resource security and policy stability to be nationally or internationally competitive.

## **Monitoring, reporting and consultative mechanisms**

Many of the RFA obligations and milestones are process based. Monitoring, reporting and consultation elements provide the indication that provide an indication of outcomes

### ***Reporting on sustainability indicators should be improved***

The VAFI believes Victoria's State of the Forests reporting meets the obligation for monitoring of sustainability indicators at the broad level. We note that the Draft Report indicated there are data gaps for over two-thirds of the indicators. This is a concern and efforts must be made to improve monitoring of sustainability indicators across all land tenures and with the aim of providing both local and landscape level data.

We believe that a much higher level of data is available for State forests than for parks and reserves and that data is often extrapolated for those areas based on State forests data. We believe that data collection, monitoring of performance and reporting must be improved for parks and reserves to provide comparable data and that monitoring and reporting must be integrated and comprehensive to provide a meaningful indication of ecosystem health at the landscape level.



We recognise that DSE have indicated it is developing a new monitoring program which will “provide the information required to evaluate the success of policy and management initiatives in achieving desired forest management outcomes.” We support the aims of any monitoring program supporting adaptive management and continuous improvement. We also believe that it must be applied comprehensively across State forests, parks and reserves and if possible, private land.

### ***Public participation and reporting are essential to industry and community confidence in the RFAs***

Public participation is an essential element of public land management. It is important that the Victorian Government and forest managers take into account the views and knowledge of public land users and dependent industries, local communities and the broader community as well as the best available science.

Public reporting of RFA activities is essential to public confidence in the management and use of public land, including the impacts and sustainability of timber harvesting and the performance of the management of parks and reserves for fire, pests and weeds and biodiversity.

### ***Public reporting for State forests is of high standard***

The VAFI believes that public reporting of sustainability indicators, harvesting performance and independent audits and reporting of compliance of timber harvesting and regeneration operations on public land with the Code of Practice for Timber Production are crucial elements of demonstrating the performance of forest management on land available for timber production and maintaining the transparency and accountability required for use of public land. To this end, we support the expansion of the audit program, including coverage of forest management planning.

We also note that VicForests has achieved certification to the Australian Forestry Standard, an internationally recognised standard for responsible forest management. Certification is based on an independent audit and requires continuous improvement in management practices.

### ***The DSE EMS should cover parks and reserves as well as State forests***

The development and implementation of DSE’s environmental management system for State forests is part of a comprehensive policy and regulatory framework for State forests. It is also important that DSE continues to support the independent certification of VicForests to the AFS through ensuring that its own processes and activities are consistent with those required in its role as the policy maker, land manager and regulator.

The VAFI believes that the EMS covers many policies and practices which are common to both State forests and parks and reserves, including prescribed burning, road building or maintenance and recreation services. The basic components of the EMS are applicable and

an Environmental Policy and Sustainability Charter should likewise be developed for parks and reserves as well as State forests.

***Continual improvement and adaptive planning and management are integral to ESFM***

Regional prescriptions for timber production are periodically updated. Forest management plans and management plans for parks and reserves should also be subject to periodic review and update.

The VAFI believes there are processes in place through the audit framework for timber production, VicForests certification and periodic review of codes and prescriptions for the continual improvement and adaptive management of forests available for timber production.

The VAFI believe that although timber harvesting is conducted in accordance with management procedures for the protection of Indigenous and non-Indigenous cultural heritage values, the commitment to develop Statewide guidelines for management of cultural heritage values in all RFA area forests, parks and reserves must be met. Timber harvesting only occurs on a fraction of public land. Statewide guidelines are required to provide integrated and effective protection of cultural values.

**Sustainability indicators**

The Draft Report details the development and adoption of the Framework of Regional (SubNational) Level Criteria and Indicators for Sustainable Forest Management and the Criteria and Indicators for Sustainable Forest Management, which provides the framework for the State of the Forests reporting. It is also notable that the Australian Forestry Standard, to which VicForests is certified, is recognised as being consistent with the Montreal Process criteria and indicators for sustainable forest management, through its assessment under its mutual recognition under the Programme for the Endorsement of Forest Certification Schemes (PEFC).

The admission that there are data gaps for over two-thirds of the indicators of sustainable forest management in Victoria's criteria and indicator framework appears to be of significant concern. However, the Draft Report provides no indication of the significance of the data gaps and their impact on knowledge of forest condition.

**Private land**

The VAFI agree this obligation was met.

**Threatened flora and fauna**

From the information in section 5.8 of the Draft Report, it appears the obligations for threatened flora and fauna have been met for Periods 1 and 2. However, we believe that the information does not adequately deal with the quality of Recovery Plans and Action Statements and their implementation and outcomes.



We also note that there have been considerable delays in the preparation of Action Statements due to resourcing issues. We note that the Hawke Review of the EPBC Act provided recommendations for the streamlining of listing processes and the Victorian Government White Paper on Land and Biodiversity has committed to a reform of biodiversity and conservation legislation in Victoria by 2012.

## **Water**

The VAFI believes that the issue of the impact of timber harvesting on water yield has become overly politicised, despite the fundamental need for management decisions to be based on the best available science.

Action 2.1 of the Victorian Government White Paper, *Securing Our Water Our Future*, has not been completed. The hydrological studies and sustainability assessment of the relative impacts of timber harvesting options on water yield and timber supply in Melbourne's water supply catchments were undertaken but the sustainability assessment has not been released, despite being completed over a year ago. Furthermore, options to improve water yield that may have increased the level of timber production through silvicultural thinning practices were ruled out of consideration in the sustainability assessment without any scientific basis.

The VAFI believes that the studies undertaken for Action 2.21 were highly credible. They were undertaken and peer reviewed by independent experts. Stakeholder and community consultation was undertaken. The results to date provide transparent and objective information on the impact of timber harvesting and management options.

We believe however, that the Victorian Government must ensure that information is readily available and objectively communicated to resolve the politicisation of this issue.

## **The CAR reserve system**

The VAFI believes that the obligation to implement the CAR reserve system was met as per the RFAs but that the level of reservation has far exceeded what was agreed in the RFAs.

### ***Reserve additions not in accordance with RFAs***

Several additional designated reserves have been created which were not in accordance with the RFAs. These include additional reservation of Box-Ironbark forests in the North East region, the creation of the Great Otway National Park in the West Victoria region and potentially the additional reservation of 45,000 hectares in East Gippsland.

The additions to the designated reserves in the North East region and the West Victoria regions led to a net loss of jobs and timber resources. These actions had social and economic consequences for the industry and communities. For example, the VAFI believes that 45 harvesting and haulage contractors and 18 mill workers lost their jobs as a result of the phasing out of timber harvesting in the Otways.

Timber production in native forests in Victoria is undertaken on less than 1% of the public native forest estate each year. The VAFI believes that resource availability has been reduced by such a degree that it has left VicForests a significant challenge to achieve critical mass in its operations and the industry in a situation of uncertainty and vulnerability to the risk of fire to native timber resources. They have also undermined the social and economic outcomes agreed as part of the RFAs. The reduction in employment and decline in resource availability has flow on implications for towns and for attracting students to the industry.

These actions have consequences for protection CAR values as they reduced or removed the contribution of the forest industry to fire management in those regions.

The contraction of the Victorian native forest industry has impacted on fire management and suppression capacity in the following ways:

- a. A reduction in the number of skilled machine operators available for use in fire-fighting;
- b. A reduction in the availability of forest machinery suitable for forestry fire fighting;
- c. Diminution in the available knowledge of forest roads, and associated information like appropriate sites to load and unload; and
- d. General diminution of 'forest awareness' in the population.

In particular, the reduction in human resources, equipment and roading and access funds from the forestry industry, particularly in areas such as the Otways, places an increased burden on the State Government and DSE to 'fill the gap'. For example, whilst VicForests spent \$7.3 million on roading in 2008/09, forestry industry revenue raised for roading was over \$13 million for both 2000/01 and 2001/02.

Forestry machinery cannot be easily substituted by earth moving and other equipment – it is purpose built for forest terrain. In areas where timber production occurs, forestry machinery is readily available, in-location with skilled operators who have local forest knowledge. We believe this resource is irreplaceable.

It is unclear whether DSE has been able to adequately 'fill the gap' in maintaining access roads for firefighting as well as maintaining comparable or higher levels of skilled and experienced human resources and suitable equipment for fire fighting but given the risks posed to environmental values from large, intense wildfires, this issue requires serious consideration.

The addition of over 45,000 hectares of State forest to conservation reserves in East Gippsland is also potentially in conflict with the Victorian Government's obligations under the East Gippsland RFA. The commitment to the reserve system has been provided in legislation and action. However, the commitment to achieve it without any net job losses or reduction in available timber resources has not yet been demonstrated. The Victorian Government has not released the report of the Industry Transition Taskforce, which made recommendations on how to achieve this commitment and has not publicly or to the VAFI indicated or demonstrated exactly how the commitment will be met.



In order to fulfil its obligations under the East Gippsland RFA and given the consequences of previous contraventions of commitments under the RFAs, the VAFI believes that the Victorian Government must demonstrate that no net job losses or reduction in available timber resources will be achieved.

### ***Level of protection of CAR values***

According to the Draft Report, it is difficult to compare the current level of protection of CAR values relative to the level when the RFAs were signed due to advances in measurement technologies and practices.

Therefore it is not possible to assess whether changes to that component of the CAR reserve system in State forest will not lead to a net deterioration in the protection of identified CAR values. Nevertheless, it is clear from the information in the Draft Report that changes have not removed but in fact added areas to the reserve system and therefore, it is highly likely that changes in periods 1 and 2 have led to an amelioration of levels of protection of identified CAR values.

What is not captured in the reporting on RFA obligations and milestones is the impacts that a changing climate, severe bushfire or other such risks may have on the quality of forest and biodiversity and the maintenance and enhancement of CAR values. For instance, the 2008 Victoria's State of the Forests Report identified that bushfires destroyed over 100,000 hectares of old growth forest between 2003 and 2006.<sup>6</sup>

However, from the statistics in the Draft Report it appears that the level of protection of pre-1750 EVC/Bioregions and old growth is not at the level required under the JANIS criteria to varying degrees. The level of protection in East Gippsland appears to be relatively higher than other RFA regions. The Draft Report states that the levels of protection reflect the occurrence of EVCs on private land and the difficulties in including such areas in a reserve system as well as the fragmentation of EVCs which limits effective and economic reservation.

It should be noted however, that the State of the Forests Report indicates that by 2006, over 4.7 million hectares (60%) of Victoria's total native forest was protected in CAR reserves, including over 90% of rainforest, mangrove and callitris forest types and over 77% of old growth.<sup>7</sup> The area of native forest reserved has increased since 2006.

The annual harvesting of old growth forests has declined significantly due to additional reservations; decreasing from 730 hectares in 2001-02 to 50 hectares in 2005-06.

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<sup>6</sup> Department of Sustainability and Environment (2009) Victoria's State of the Forests Report 2008, <http://www.dse.vic.gov.au/DSE/nrenfor.nsf/LinkView/52BF92D03256680ACA25761F00224320A044DADB305A7076CA25748A001709F9>, Criterion 1, p. 13

<sup>7</sup> Department of Sustainability and Environment (2009) Victoria's State of the Forests Report 2008, <http://www.dse.vic.gov.au/DSE/nrenfor.nsf/LinkView/52BF92D03256680ACA25761F00224320A044DADB305A7076CA25748A001709F9>, Criterion 1, p. 16

### ***Forest management planning***

The VAFI welcomes the strategic review of forest management planning. We anticipate further details of the project and public consultation.

We note that the Draft Report indicated that uncompleted FMPs for Horsham/Portland and Otway FMAs would be finalised by the end of 2009. This has not been achieved.

### ***RFAs and NRM in Victoria***

There have been several cases where the Victorian Government has undertaken actions which were not in accordance with the RFAs and have essentially disregarded elements of the social and economic outcomes associated with the RFAs.

The Victorian Government released in December 2009 its White Paper on Land and Biodiversity at a time of Climate Change, which proposes a new framework for land, water and biodiversity conservation including changes to the legislative, policy and institutional arrangements in Victoria. Although this policy was released after the end of the 2<sup>nd</sup> commitment period, it is highly relevant to note that given the Government's past actions have undermined commitments to the RFAs and this policy provides a new direction for NRM, including regional institutions, legislative consolidation and use of planning and non-market mechanisms to promote biodiversity conservation and sustainable land and water management, there is a need for this policy to achieve a level of reconciliation with the RFAs to support Victoria's ongoing achievement of RFA obligations and milestones. There is also a need for the Victorian Government to publicly recommit to the RFAs and refocus on achieving obligations and milestones which have not been achieved to date.

### **Industry development**

#### ***Availability of State forest for timber harvesting***

The VAFI agrees that the RFA obligations regarding only State forest outside the CAR reserve system being the basis for the Sustainable Yield and available for harvesting has been met.

#### ***A net deterioration in the timber production capacity of those areas available for harvesting***

The VAFI agrees that this obligation was not met in the North East and West Victoria as a result of the Our Forests Our Future policy and reserve additions.

We do not believe that there is sufficient information provided in the Draft Report to conclude that changes to the area of State forest in other RFA regions has not led to a deterioration in the timber production capacity of those areas available for harvesting in terms of volume, species and quality.

As discussed above, the implementation of the reserve additions in East Gippsland under the Parks and Crown Land Legislation Amendment (East Gippsland) Bill 2009 has not



transparently demonstrated how the reserve additions were achieved in a way which will not lead to net job losses or a net resource loss in terms of volume, species and importantly, quality.

***Long term stability and sustainable growth has not yet been achieved***

The VAFI does not agree with the assertion in the Draft report that commitments for enhanced resource certainty and long term stability for forest-based industries has been achieved in Victoria.

We agree that Victoria's forest-based industries have experienced growth, increases in productivity and investment.

***Resource uncertainty and short supply contracts have undermined investment***

However, this development has been hampered by declines in resource availability due to fires, methodological improvements to the sustainable yield and reserve additions. Political decisions to reduce the resource in contravention of the RFAs in particular have created uncertainty. 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."<sup>8</sup>

The decline in available resource and the move to a market-based auction system resulted in structural adjustment in Victoria's native hardwood sector, including sawmill consolidation.

The static level of output over a ten year period (\$5-6 billion) demonstrates that despite investment in technology and higher value production, the industry has not achieved the growth imagined when the RFAs were signed. We believe that reserve additions and commercial forest policies led to a lower level of output than might have occurred under a situation of lower sovereign risk and higher certainty.

Another issue has been the reduced length of wood supply contracts offered by VicForests, which were underpinned by the structure of the Allocation Order and the risk profile faced by VicForests. Average contract lengths were reduced to an average of 5-6 years, too short to attract investment and as Table 1 below indicates, the contract length and conditions were out of line with other states. Analysis based on current returns indicates payback periods for investments are more than 16 years.<sup>9</sup>

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<sup>8</sup> Victorian Department of Primary Industries (2009) Timber Industry Strategy Public Consultation Draft, Victorian Government, April, p. 9

<sup>9</sup> 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

**Table 1: Comparison of conditions of supply across Australia<sup>10</sup>**

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 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

The VAFI notes and welcomes the actions in the TIS 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. 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. The success of the TIS will be evident in whether VicForests is able to offer longer wood supply contracts in the future.

#### *Under-utilisation of residual wood*

In addition, we believe that Victorian Government policies for renewable energy have undermined the more efficient utilisation of residual wood. Victorian Government policy during period 2 prohibited wood waste from native forests from being recognised under the Victorian Renewable Energy Target scheme.

The Commonwealth Government’s Mandatory Renewable Energy Target scheme (and now the expanded national RET) restricts the use of native wood waste for eligible bioenergy based on a high value test. 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. The Allocation Order and subsidiary planning and allocation instruments and the Code of Practice for Timber Production is the appropriate regulatory instruments to maintain responsible production.

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<sup>11</sup> 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

<sup>10</sup> 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

Australia's bioenergy potential. 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. 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.

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 CO<sub>2</sub>e emissions.<sup>12</sup> The TIS recognised that there is potential to generate a better economic, environmental and community value from lower quality native hardwood logs that are a by-product of timber harvesting.

#### *Under-utilisation of non-commercial thinning*

The VAFI believes that thinning to improve productive capacity has been undertaken in RFAs – approximately 1,000 – 1,500 hectares per year over the past five years. However, we believe that thinning has been underutilised as technique to improve water yield and to assist in fire management in strategic areas such as at the interface of public and private land.

#### *Market failure in long rotation hardwood plantations*

There remains a market failure in the establishment of long rotation hardwood plantations. Government policies have been successful in the expansion of shorter rotation hardwood plantations but longer rotation hardwood plantations are necessary to supplement the native forest resource and to build a stronger and more diverse resource base to underpin industry growth and innovation in the future.

The forestry reforms have created a more competitive environment and have supported a move towards higher-valued production. However, investment has also been constrained by sovereign risk of resource reductions and short wood supply contracts. Furthermore, policy settings have constrained resource efficiency, including the use of residual wood for bioenergy.

The VAFI believes that the Timber Industry Strategy will go some way to addressing these problems if it is fully implemented and appropriately resourced.

#### ***Commitments to at least maintain the timber production capacity in terms of volume, species and quality***

The VAFI recognises that the sustainable yield obligation in the RFAs is subject to periodic reviews of the sustainable yield and to the market capacity to support harvesting in less economically viable areas. The sustainable yield by 31% as a result of the 2001 timber

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<sup>11</sup> Clean Energy Council (2008) Australian Bioenergy Roadmap: Setting the direction for biomass in stationary energy to 2020 and beyond, September, <http://cleanenergycouncil.org.au>

<sup>12</sup> Department of Climate Change (2008) National Greenhouse Accounts Factors, February, <http://climatechange.gov.au.au/workbook/index.html>

resource review and has been further affected by methodological improvements, new resource information, continuous improvements to management codes, procedures and planning and by bushfires.

In particular, large severe bushfires in 2002/03, 2006/07 and 2009 significantly reduced the area of mature forest, of harvestable age, that is available for timber production.

As a result of the Our Forests Our Future reforms, an Allocation Order allocates an area of forest to VicForests to harvest over three, five-year periods. VicForests then determines the volume of timber that can be sustainably harvested. This has complicated compliance with these obligations as the sustainable yield in terms of volume, species and quality has not consistently been communicated to the industry and the actual harvest is not clearly linked to the sustainable yield.

The reserve additions and changes in tenure have impacted on the sustainable yield in a way that was not in accordance with the RFAs.

### ***Maintenance of productive capacity***

The VAFI agrees with the conclusion in the Draft Report that Statewide silvicultural programs and reforestation works to improve the productive capacity of State forests was only partly achieved.

Thinning programs have been undertaken to improve productive capacity. The VAFI believe that between 1,000 to 1,500 hectares has been thinned annually over the last five years.

However, regeneration has not been undertaken effectively in some areas, such as East Gippsland. As the Draft Report states, there is up to 25,000 hectares which requires treatment or re-treatment – this is about 4 times the area harvested annually by VicForests (including thinning). The majority of these areas were harvested prior to 2004, when VicForests was established, but given the limited areas of public native forest available for timber production and decline in resource availability, the maintenance of productive capacity is very important.

### ***Support for industry restructuring and development***

The VAFI agrees that the VicFISAP program was established to provide industry development assistance, rescheduling assistance, business exit assistance and worker assistance in period 1.

### ***Indigenous heritage***

The VAFI recognises the importance of obligations relating to the management of Indigenous heritage. We recognise that Indigenous groups provide input into timber production and fire planning and that the Management Procedures for Timber Harvesting, Rooding and Regeneration in Victoria's State Forests 2009 include measures for the protection of Indigenous cultural heritage in areas available for timber harvesting. However,

we recognise the commitments have not been fully met for all forested areas covered by the RFAs and at a strategic level.

### **Plantations**

The VAFI agrees that export controls on unprocessed timber sourced from Victorian plantations were removed as agreed.

### **Other forest uses**

The VAFI agrees that the milestone for a long term timber harvesting and water production strategy for the Thomson reservoir was pursued during the review period.

As discussed above, Action 2.21 of the Securing Our Water Future White Paper has not been completed as the sustainability assessment has not been released. The VAFI believes that it is important that Action 2.21 deliver an outcome which supports long term timber harvesting and water production in Melbourne's water supply catchments through an integrated approach to sustainable water and forest management.

We believe that, as demonstrated by the impact of the 2009 fires, bushfire is one of the most significant threats to water production. Forest industry activities must be fully utilised as part of efforts to minimise the risk of fire to sustainable production of water over the long term.

### **Competition principles**

The VAFI believes that the allocation and pricing of hardwood logs from State forests is competitive and that all milestones and obligations related to competition principles have been met.

### **Research**

The VAFI believe that the Commonwealth and Victorian Governments have funded forestry-related research over Period 1 and 2 and that research has supported the continuous improvement of regulatory requirements and management practices.

The VAFI believes that research priorities identified in the 2009 Victorian Timber Industry Strategy should be funded as a priority. We also believe there is greater scope to improve monitoring of sustainability indicators outside timber production areas and to support research which integrates forestry with the pursuit of other values such as fire risk mitigation, water yield management and development of renewable energy. It is important that research and policy development for climate change mitigation and adaption are integrated for forest management.



## **Funding**

The VAFI believes that further resources are required for the further development of sustainability indicators and work on endangered species.

The VAFI believe that there has been a lack of data on the socio-economic values associated with forestry and forest management since the signing of the RFAs. The lack of data constrains the adequacy of communication about forest management and information inputs to research on strategic and management options. We believe that there is a need for ongoing data collection and analysis of the socio-economic and industry outcomes associated with the native forest and plantation sectors in Victoria.

