



Submission for a Timber Industry Strategy for Victoria

May 2008

Executive Summary

The Victorian Association of Forest Industries (VAFI) welcomes the development of a Timber Industry Strategy, which will provide a framework for the growth of our industry over the next 20 years.

The VAFI believes the TIS is an opportunity to develop a policy framework which will deliver meaningful and sustained improvements to the Victorian forest industry.

It is imperative that the TIS has whole-of-government support and results in more effective governance and institutional arrangements for regulation of the forestry and forest products industry. It must deliver real long term reform.

The VAFI and its members believe that to achieve a long term industry growth and to overcome the threats to the viability of the industry, the TIS must provide a framework which facilitates:

- Genuine whole-of-government support for the industry and recognition of the value of the forest industry to Victoria's social and economic well-being;
- Recognition that Victoria's forests are managed to world's best practice and this sustainable forest management helps address climate change;
- A more stable environment in which to conduct business and invest;
- Greater resource security, including resource availability, terms of supply and security of supply;
- Policy settings which encourage investment and innovation and enable business to maintain international competitiveness;
- Regulatory arrangements which are streamlined, equitable, transparent and applied consistently;
- Partnerships to undertake R&D and facilitate greater skills development;
- Adequate recognition of the environmental credentials of wood and wood-based products in design and procurement;
- An improvement in the public understanding of the benefits and impacts of forestry in Victoria; and
- The development of new market opportunities including through markets for wood and wood-based products, carbon sequestration, bioenergy and environmental services.

To achieve these goals, the resolution of institutional arrangements, security of resource supply, the VicForests Price Allocation Model and policy settings necessary for industry investment and development, must be addressed as priorities.

Victorian Government institutional, governance and organisational arrangements

More efficient and effective inter-departmental relations and decision making is required to ensure that policy settings provide a stable and sustainable environment for industry growth.

- The Minister for Agriculture should be the Minister responsible for forestry and commercial forest policy.
- DPI should be the single agency responsible for planning and approvals of private native forestry, plantations and farm forestry.



VicForests must be an independent entity with the ability to manage commercial forests for a range of outcomes including commercial timber production.

- VicForests cannot be seen as a purely economic entity, but rather a conduit for a robust market through constructive and positive relationships and policy implementation.
- VicForests Charter must be amended to drive investment in longer term business growth and resource management.
- The length of resource tenure provided to VicForests must be extended to allow it to manage the resource more effectively, including thinning and fire management. The VAFI believes a 40 year Allocation Order is appropriate.

The Victorian Government must demonstrate coordinated leadership and support for the forestry and forest products industry.

- It must develop policies for forestry with the aim of maximising industry efficiency, growth and related socio-economic benefits.
- It must provide the industry with long term resource and market security, which is not subject to politically motivated decisions (i.e. election outcomes).
- The Victorian Government must also reaffirm its commitment and adherence to the Regional Forest Agreements (RFAs).
- The Victorian Government needs to champion the benefits and management of native forest and plantation industries in Victoria.
- The Victorian Government should recognise the environmental credentials of locally-produced wood and wood-based products in its procurement policies.

Sustainable yield, area and volume of resource available from public native forests

The Victorian Government must commit to public support for native forestry, promote the role of forestry in responsible management and stewardship of native forests.

It must provide a level of resource security for wood supply from public native forests which does not risk reducing the scale of operations to below the scale needed to maintain economies of scale for the industry.

- There should be no further reduction in the 'net productive area' which is available for timber production.
- The land base that is available should be firmly guaranteed through long term legislation along with a sustainable volume of supply objective.
- The DSE Wood and Water project must be science based and consider socio-economic impacts in its assessment of management options to improve water yield in Melbourne's water supply catchments. It must not result in any net loss of forest resource for the industry.
- The Government must establish a baseline for hardwood sawlog production from public native forests, including specification of the amount of timber and the species and quality mix. Any changes to the data and methodology for assessing the baseline should follow a predictable and transparent process.
- The baseline sustainable yield, including the species and quality mix, and the process for variation should be legislated.
- Amend the Sustainable Forests (Timber) Act 2004 to provide VicForests with a much longer period of secure resource tenure from the available public native forests in eastern Victoria (at least 40 years)

Government support is required to develop additional sources of hardwood sawlog supply from private native forests and plantations.

The VicForests Price Allocation Model

Improved security of tenure is a fundamental requirement for the price allocation model moving forward.

- This is possible through extending the allocation order to VicForests to 40 years (currently 15) and increasing the timber release plan from 5 to 20 years.



The timing and structure of auctions also requires better governance.

- Industry requires a mix of lot sizes and contract periods, including contracts for longer tenure to facilitate a stronger supply basis on which to operate and invest.
- There needs to be established and transparent procedures for planning auctions, including consideration of the timing and structure of auctions and socio-economic factors such as regional development and better communication from VicForests to its clients.

A review of the terms and conditions of VicForests supply contracts is required to ensure commercial fairness.

- All supply contracts must be made legally enforceable, in line with New South Wales, Western Australia and Tasmania.
- Accordingly, there must be adequate (and non-negotiable) compensation for failure to comply with supply provisions in contractual agreements.

Industry investment and development

The Victorian Government needs to provide a stable and competitive environment for investment, including new investment in wood, pulp and paper processing and plantations.

The industry requires a secure resource base to ensure the future viability of hardwood sawmills and the continuation of value-adding investment.

- There is a potential role for the Victorian Government to improve resource security through provision of 'Investment Security Guarantees' such as those provided by the Western Australian Government.
- Actions are required to ensure a more consistent and equitable regulatory environment for plantations and private native forestry (see section on long rotation plantations and private native forestry)

Government support is required to realise new market opportunities in renewable energy, carbon trading and environmental services (see section on emerging markets).

The Victorian Government must continue to work with industry to identify infrastructure needs and to maintain the necessary community and transport infrastructure in rural areas.

- There is a need for adequate expenditure and management of the national, state and local road network.

There is a need to ensure that regulatory constraints and charges for freight are not applied discriminatorily to the forestry industry. Where charges are paid, they must be directed to ways to optimise transport infrastructure.

The Victorian Government must commit to public support for native forestry and promotion of the role of forestry in responsible management and stewardship of native forests and the environmental benefits of use of wood and wood-based products.

- The industry seeks cooperation with government to build community awareness of the forestry and forest products industry.
- The Victorian Government's forestry policy, as articulated in the TIS must be adopted consistently across Government departments and statutory authorities and be reflected in all related policies accordingly.



Other recommendations

The VAFI has also provided responses to the other areas being examined under the TIS. Our recommendations are as follows:

TIS Issue	VAFI recommendation
<p>Plantations and private native forests to augment existing resources</p>	<p>There is a need for greater leadership support from the State Government</p> <ul style="list-style-type: none"> • There is a need to build support for and a greater understanding of the socio-economic and environmental contribution of plantation and private native forestry at the state, regional and local levels of government and in the community. <p>There is a need for a centralisation of regulatory oversight of planning and approvals for plantations and private native forests at the State level.</p> <ul style="list-style-type: none"> • The TIS must support the implementation of the VCEC's recommendation that the Victorian Government establish a Statewide approvals process, administered by DPI, for the establishment, management and harvesting of plantations in which accredited operators would be deemed to comply with planning provisions. • Private native forestry should be allowed to be regulated under sustainable forest management protocols and where possible, exempted from native vegetation retention regulations. • The review of the Environment and Planning Act 1987 this year must be consistent with policy developed through the TIS. • The issue of water use and impacts in land use planning must be science-based and form part of the Statewide approvals process recommended by the VCEC. • There is a need for DPI to work with plantation companies and industry bodies to identify and rectify cases of inequitable treatment in regulation and policy compared to other agricultural land uses. <p>There is evidence of market failure in this sector, which can be addressed by the Victorian Government in the following ways:</p> <ul style="list-style-type: none"> • Reducing sovereign risk for investors by providing a consistent, transparent and equitable regulatory environment; • Supporting new Commonwealth taxation arrangements which allow for liquidity in investment in long rotation plantations; • Supporting research and providing information to encourage investment, identify suitable land and enhance the understanding of forestry by CMAs, local government and the community; • Supporting the development of emerging markets which can provide income for environmental services provided by plantations and private native forests including carbon sequestration; • Continuing support for programs to provide technical services and advice to potential investors, farmers and land owners; and • Cooperating with industry to develop the infrastructure and attract and develop the skilled workers required to take advantage of market opportunities and maintain international competitiveness.
<p>Emerging markets including energy production and an emissions trading scheme</p>	<p>The TIS should be consistent with the outcomes of the Commonwealth Government process for the development of an Australian ETS and it should maximise the opportunities for Victoria's forestry and forest products industries to derive commercial benefits from the ETS.</p> <p>The Victorian Government should also support policy settings for forestry, renewable energy and the procurement and promotion of forest products which are consistent with the ETS and its aim to minimise emissions of greenhouse gases.</p>



TIS Issue	VAFI recommendation
	<p>The Victorian Government has a role in supporting recognition of the carbon friendly attributes of wood and wood-based products through complementary procurement, research and development and promotion policies.</p> <p>The VAFI also recommends the Victorian Government provide support and resources for the research work required to develop appropriate rules for the forestry sector’s successful inclusion in a national ETS.</p> <p>There is a role for the Victorian Government to work with the Victorian industry to promote the recognition of carbon stored in harvested wood products, the use of bioenergy and the development of carbon accounting arrangements for native forests and plantations which limit the emissions liability risk from uncontrollable events (e.g. fire) and regimes aimed at mitigating emissions (e.g. fuel reduction burns) in a national ETS.</p> <p>The Victorian Government should take a proactive position to encourage wood waste and sawmill residue biomass and cogeneration activities including:</p> <ul style="list-style-type: none"> • Removing impediments to use of wood waste for energy; • Aligning policy settings with the aims of the ETS to promote use of wood waste for renewable energy; and • Providing industry development assistance such as that provided by other state governments (e.g. NSW).
<p>Occupational health and safety in the harvest and haulage and processing sectors</p>	<p>Occupational health and safety in the processing sector is a priority for VAFI members. There remains a need for initiatives to ensure greater consistency in compliance with OH&S requirements through the provision of support for improved practices, including training, education and communication activities.</p> <p>The government should engage NAFI and other relevant parties to develop protocols and a process to ensure effective legal protection and an indemnity for companies/owners and operators of equipment that are directed to be engaged in fire suppression activities.</p>
<p>Government procurement policies</p>	<p>The Victorian Government needs to recognise and promote that Victorian native hardwood and plantation timber, sustainably harvested and re-grown, is environmentally and greenhouse friendly.</p> <ul style="list-style-type: none"> • The Government needs to ensure that the projects it supports to assess the environmental qualities and impacts of production forestry and wood products have methodologies, techniques and measures that are rigorous, objective, transparent and fair. At present many of these assessments are lacking in credibility, integrity and transparency. It is crucial that all such schemes are analysed by Government, industry and the community. • The credentials of AFS certification (and its equivalence to FSC), particularly in relation to ‘biodiversity’ must be recognised by all government departments. • It is critical for Victorian wood products, that the current GreenStar Sustainable Timber credit be amended to a more realistic and achievable requirement. The recognition of all credible, internationally-recognised third party certification schemes (PEFC, AFS and FSC) should be fully supported and endorsed by government. A full life cycle assessment approach should be the ultimate aim for assessment of building materials. • It is critical that the timber industry in the future maintains AS1684 and provides a program of specific R&D to regularly update and



TIS Issue	VAFI recommendation
	<p>improve this key timber construction standard.</p> <ul style="list-style-type: none"> • A more holistic approach to demonstrating greenhouse gas emission reduction should be the aim of the Victorian Government, who to this point has been a leader in energy based regulations. • The Victorian Government should endorse, support and lead the way in the take up of LCA within government sustainability regulations and environmentally based procurements policies and specifications. A targeted, consistent, coordinated, scientifically based and forward looking strategy such as this provides the best opportunity to protect and grow wood product markets into the future.
<p>Training and skills development</p>	<p>There is a significant skills shortage in the Victorian forestry industry. There is a need to promote careers in the forestry industry to school leavers; to improve the effectiveness, availability of workplace training and to direct funding to building schools of excellence and enhancing training programs in new technologies and practices. The industry is committed to being proactive and to partnering with the Victorian Government and training providers to address training and skills development.</p> <ul style="list-style-type: none"> • A Government-funded advertising campaign to promote careers in the industry such as the one for manufacturing would be an effective addition to existing industry initiatives to attract new people to the industry. • Government partnerships with industry and training providers to improve the availability and effectiveness of workplace training could provide valuable outcomes for the industry. • There is a need to form partnerships across specialisations and support schools of excellence which can lead in research areas and attract school leavers and graduates. • The industry supports the development of 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. <p>The industry supports the development of a Victorian indigenous forestry employment strategy.</p>
<p>Research and development</p>	<p>There is a role for government to facilitate strategic research as a public good which can support the development and public understanding of the forestry and forest products industry. Areas requiring government support as a priority include:</p> <ul style="list-style-type: none"> • Forest management including carbon storage of native forests and plantations and the impacts of climate change; • The preparation of an inventory of productive, private native forests. • It also includes the identification of areas suitable for plantation development, research on the environmental impacts of plantations and further development of markets to value environmental services provided by plantations. • Additional research and development of technologies to enable the development markets for bioenergy, carbon sequestration and environmental services. In particular, there is a need for firm level case studies and analysis of the suitability and commercial viability of different technologies and products for different sectors of the industry. • Research on the socio-economic impacts of the forestry and forest products industry in Victoria, particularly regional level data. • A separate stream of socio-economic research is required focusing on the community's use of wood products, how they value them, their understanding of the benefits and impacts of the forestry and forest products industry in Victoria and the factors which influence their understanding.



TIS Issue	VAFI recommendation
	<p>The VAFI supports the recommendation of the STIC that a joint government/industry sponsored audit of forest and timber research in Victoria is required, to ensure that programs and funding are properly aligned with the Government’s objectives for the sector (as articulated in the TIS) and the sector’s commercial needs.</p> <p>There is a need to also consider how the results of research and development are communicated and adopted and to facilitate pathways for the implementation of the results of research and development.</p>

The success of the TIS in delivering real reform, resource security and a platform for industry to invest, innovate and produce internationally competitive products and services will require adequate resources for implementation.

The VAFI and members look forward to working with the Government and all stakeholders in forestry to build a stronger and more efficient forestry industry with increasing community engagement and support.



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The forestry and forest products industry in Victoria: A vision for the industry

The Victorian Association of Forest Industries (VAFI) welcomes the development of a Timber Industry Strategy, which will provide a framework for the growth of our industry over the next 20 years.

The VAFI is the peak representative body for the Victorian forest industry. We represent our members' interests to governments, communities and markets. Our members include forest producers, processors and associated bodies.

The Victorian forestry and forest products industry generates output of around \$6 billion per annum and directly employs around 25,000 people.¹ Our industry makes a significant contribution to regional economies, the Victorian state economy and our increasingly fragile export markets.

The report to the Minister for Agriculture from the Sustainable Timber Industry Council (STIC) stated that "Given the strong growth in demand for timber products, along with Victoria's transport infrastructure and highly skilled workforce, there are strong economic arguments as to why the industry in Victoria is well placed to grow."

The industry recognises that there are emerging market opportunities and exciting prospects for innovation and use of timber in environmentally sustainable design. We are committed to growth, innovation, sustainable practice and regional development.

However, there are significant threats to the growth of our industry and indeed, its viability. These threats include resource availability and security, skills and infrastructure constraints, regulatory impediments and a need to improve the perception of the forestry and forest products industry within all levels of government and the community. In light of the past decades of declining resource availability and security, industry consolidation and the threats to industry growth, business uncertainty is high.

The VAFI and its members believe that to achieve a long term industry growth and to overcome the threats to the viability of the industry, the TIS must provide a framework which facilitates:

- Genuine whole-of-government support for the industry and recognition of the value of the forest industry to Victoria's social and economic well-being;
- Recognition that Victoria's forests are managed to world's best practice and this sustainable forest management helps address climate change;
- A more stable environment in which to conduct business and invest;
- Greater resource security, including resource availability, terms of supply and security of supply;
- Policy settings which encourage investment and innovation and enable business to maintain international competitiveness;
- Regulatory arrangements which are streamlined, equitable, transparent and applied consistently;
- Partnerships to undertake R&D and facilitate greater skills development;
- Adequate recognition of the environmental credentials of wood and wood-based products in design and procurement;
- An improvement in the public understanding of the benefits and impacts of forestry in Victoria; and

¹ URS Forestry (2007) Analysis of the Victorian forestry and forest products industry, prepared for the Department of Primary Industries, Melbourne, July



- The development of new market opportunities including through markets for wood and wood-based products, carbon sequestration, bioenergy and environmental services.

The VAFI believes the TIS is an opportunity to develop a policy framework which will deliver meaningful and sustained improvements to the Victorian forest industry.

It is imperative that the TIS has whole-of-government support and results in more effective governance and institutional arrangements for regulation of the forestry and forest products industry. It must deliver real long term reform.

Furthermore, the Victorian Government must commit adequate resources for the implementation of the TIS, and support industry development with meaningful financial support to assist in research and development, environmental and industry scans as well as in promotion campaigns.



Victorian Government institutional, governance and organisational arrangements

The VAFI commends the development of the TIS to set a framework for the long term direction for forest industries in Victoria for the next 20 years.

Government leadership and support

The State Government needs to demonstrate coordinated leadership and support for the benefits and management of the forestry and forest products industry, particularly the native forest sector, in Victoria.

The VAFI calls on the Victorian Government to support the forestry and forest products industry through its regional growth strategies (i.e. Vision for Victoria to 2010 and Beyond), procurement policies, building codes and requirements and natural resource management policies and programs.

The forestry industry has in the past found itself traded in elections resulting in a significant sovereign risk for investors and sub-optimal policy outcomes. There is a high degree of uncertainty in the policy environment for the forestry and forest products industry in Victoria relative to other states and other industries. The VAFI calls on the Victorian Government to develop policies for forestry with the aim of maximising industry growth and related socio-economic benefits, acknowledging the significant part forestry has to play in fighting climate change.

The Victorian Government must also reaffirm its commitment and adherence to the Regional Forest Agreements (RFAs). Following the conclusion of the RFA process, reserves were created in Gippsland and the Otways without adherences to the relevant RFAs, and in the later case the Western RFA was cancelled. Political decisions which undermine the RFAs create significant sovereign risk for the industry.

The industry calls on the Government to champion the benefits and management of native forest industries in Victoria. Government support is required to improve resource security, provide a stable environment for industry growth and investment and to correct the market failure associated with adequately valuing the public good benefits of forests. There is a clear role for government agencies to engage in educational and promotional activities related to forestry, forest management and wood and wood-based products.

Institutional arrangements

The collaboration of key regulators and industry is essential to support the growth and development of the forestry and forest products industry in Victoria; this includes VicForests, the Department of Primary Industries, the Department of Sustainability and Environment (DSE), the Department of Treasury and Finance (DTF), the Environment Protection Authority (EPA) and WorkSafe.

More efficient and effective inter-departmental relations and decision making is required to ensure that policy settings provide a stable and sustainable environment for industry growth. Fragmented and short term Government decision making is a major obstacle to the long term investment required for sawlog plantations and technological innovation and further investment in the processing sector.

An effective whole of government approach to governance of the forest industry requires appropriate changes to legislation, regulations, structures and relationship to ensure consistency and effectiveness.



DPI as the central agency overseeing forestry

There is a need to better align departmental roles with responsibilities and resources. The Department of Primary Industries is well positioned to provide a greater role in government policy leadership and interagency coordination for forest industry development.

The Minister for Agriculture is the appropriate Minister to be responsible for Forestry and commercial forest policy. This change would be provide a more effective policy framework, whilst the Department of Treasury remains the shareholder of VicForests.

As the Minister responsible for forestry, DPI would actively develop forest policy to promote forestry and related industries and safe guard against the introduction of legislation where the potential impacts could have negative outcomes for forestry and related industries

In addition, the Minister's role would include being a champion for industry in support of their dealings with Government Departments, agencies and State Owned Enterprises such as VicForests.

There is a need to review and streamline regulation and approval processes for private native forestry and plantations. DPI is the ideal agency to provide a single point for planning and approvals. The current arrangements have led to inconsistency in the interpretation and application of the regulatory framework across local government. DPI has the necessary expertise to provide this function in a way which will improve efficiency and minimise inconsistencies.

The TIS must support the implementation of the Victorian Competition and Efficiency Commission's recommendation that the Victorian Government establish a Statewide approvals process, administered by DPI, for the establishment of plantations in which accredited operators would be deemed to comply with planning provisions (see also section on plantations).

There is a need for DPI to provide leadership in dealing with local governments and catchment management authorities to ensure planning and management of plantations is reflected in natural resource policies at the regional and local levels.

Government support and more cooperative and effective institutional arrangements are essential to providing a stable environment for investment in private native forestry, farm forestry and industrial-scale plantations. It is important that forestry is viewed as part of sustainable land use policy, planning and management.

VicForests' Charter and direction

VicForests is a government-owned commercial entity. VicForests must be an independent entity with the ability to manage commercial forests for a range of outcomes including commercial timber production.

Its 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.

VicForests Charter should ensure that it operates for the long term benefit of the community and its customers as well as the Government. This should be reflected in its operational practices and partnerships and communication with customers and stakeholders.



There is a clear need to provide VicForests with longer term tenure to drive investment in longer term business growth and resource management.

VAFI recommendation

More efficient and effective inter-departmental relations and decision making is required to ensure that policy settings provide a stable and sustainable environment for industry growth.

- The Minister for Agriculture should be the Minister responsible for forestry and commercial forest policy.
- DPI should be the single agency responsible for planning and approvals of private native forestry, plantations and farm forestry.

VicForests must be an independent entity with the ability to manage commercial forests for a range of outcomes including commercial timber production.

- VicForests cannot be seen as a purely economic entity, but rather a conduit for a robust market through constructive and positive relationships and policy implementation.
- VicForests Charter must be amended to drive investment in longer term business growth and resource management.
- The length of resource tenure provided to VicForests must be extended to allow it to manage the resource more effectively, including thinning and fire management. The VAFI believes a 40 year Allocation Order is appropriate.

The Victorian Government must demonstrate coordinated leadership and support for the forestry and forest products industry.

- It must develop policies for forestry with the aim of maximising industry efficiency, growth and related socio-economic benefits.
- It must provide the industry with long term resource and market security, which is not subject to politically motivated decisions (i.e. election outcomes).
- The Victorian Government must also reaffirm its commitment and adherence to the Regional Forest Agreements (RFAs).
- The Victorian Government needs to champion the benefits and management of native forest and plantation industries in Victoria.
- The Victorian Government should recognise the environmental credentials of locally-produced wood and wood-based products in its procurement policies.



Sustainable yield, area and volume of resource available from public native forests (State forests)

The biggest threat to the viability and the growth of the Victorian forestry and forest products industry is the reduction in the supply of sawlogs from public native forests and the limited availability of substitute supplies of wood.²

The current lack of resource security is constraining investment in all sectors of the forestry and forest products industry, including manufacturing. Long term security of supply and a predictable and transparent process for calculating sustainable yield are urgently required to encourage innovation, investment and development.

The TIS is an opportunity for the Victorian Government to improve long term resource security and redress the imbalance that has seen the industry assume a disproportionate level of risk.

The importance of timber production in public native forests

Victoria's forest industry generates output of \$6 billion per annum and employs around 25,000 people. In Victoria, the hardwood processing industry sources approximately 95 percent of sawlogs from public native forests. Native forest timbers have natural advantages for sawn timber uses including superior density, appearance, strength and durability. There is currently no alternative domestic resource to replace that provided by native forests.

Demand for wood and wood based products remains strong. This is exemplified by the significant trade imbalance for wood and wood-based products in Australia. In 2006/07 the trade deficit in forest products totalled \$1.9 billion, including a deficit of \$1.6 billion for paper and paperboard and \$273 million for sawnwood.³ A report commissioned by the Australian Department of Agriculture, Fisheries and Forestry in 2005 found that up to nine percent of Australia's forest product imports, or approximately \$400 million in value, was from potentially illegal or suspected illegal sources.⁴

The VAFI believes timber production from public native forests is economically, socially and environmentally sustainable.

Timber production is important to the long term management of native forests. The industry provides a source of funds and maintains a critical mass of forest management expertise.

Bushfires are a threat to resources availability from public native forests as well as a threat to communities and assets. The report by the STIC notes that "As recognised recently in the Victorian Government's Bushfire Recovery Task Force report, maintenance of commercial forestry activities is critical for ongoing fire control and management in terms of people, experience and equipment. Without these resources, losses from recent fires could have been significantly greater."⁵ The VAFI urges the Victorian Government to support more effective approaches to bushfire prevention, including active and adaptive forest management, maintenance of access roads, forest thinning and fuel reduction burns. At the same time, the significant contribution forestry companies and their employees make in fighting fires and assisting in bushfire mitigation strategies must be publicly acknowledged.

² URS Forestry (2007) and Sustainable Timber Industry Council (STIC) (2007) Victoria's Sustainable Advantage: Recommendations for a new Timber Industry Strategy for Victoria, Report to the Minister for Agriculture, July

³ ABARE (2007) Australian forest and wood products statistics, March and June Quarters 2007, December

⁴ Jaako Poyry Consulting (Asia Pacific) Pty Ltd (2005) Overview of Illegal Logging, Report prepared for the Australian Department of Agriculture, Fisheries and Forestry

⁵ STIC (2007)



The Victorian Government must commit to public support for native forestry and promotion of the role of forestry in responsible management and stewardship of native forests and the environmental benefits of use of wood and wood-based products.

Resource availability (area available for productive management)

Victoria has an extensive representative reserve system, which covers the majority of public native forests. Timber production is now restricted to a total of 10 percent of the public native forest area, with less than 0.2 percent harvested (and regrown) annually.

According to the National State of the Forests Report 2003, Victoria had 3.05 million hectares of native forest in formal nature reserves; 46 percent of the total area of public native forest.⁶ The reserve system was established in line with the Comprehensive, Adequate and Representative (CAR) reserve system framework of the Regional Forest Agreements.

The 2002 Our Forests Our Future (OFOF) Policy established further conservation reserves, including the phased withdrawal of timber production from areas in the Otway region to extend the Otway National Park.

The ALP 2006 State election policy for 'Victoria's National Parks and Biodiversity' proposed new reserves in East Gippsland for the conservation of additional areas of old growth forest based on a commitment to 'no net resource loss', which the Industry Transition Taskforce has been working diligently to achieve.

Other recent reserve initiatives include the new Cobbonboonee National Park and Forest Park near Portland and the Box-Ironbark and Otways Ranges Parks.

The River Red Gum areas are still under review by the Victorian Environmental Assessment Council (VEAC). The VAFI urges the Victorian Government to maintain timber harvesting in Victoria's red gum forests as it is minimal, its environmental impact is negligible and it is economically and socially vital in its regional setting.

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 regimes⁷. 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 and is important in maintaining a level of resource supply which provide sufficient economies of scale for the industry.

Furthermore, there are a number of unresolved threats to resource availability including reservation of areas relevant to the Baw Baw Frog, Long Footed Potaroo and Leadbeater's Possum and extension to rainforest buffers. All of these unresolved issues have the potential to further reduce resource availability.

⁶ Australian Department of Agriculture, Fisheries and Forestry (2003) State of the Forests 2003, Canberra

⁷ The results of thinning trials in Victorian ash forests and the Western Australian Wungong catchment demonstrate the positive impact thinning can have on water yield.



Sustainable yield

The 2002 OFOF Policy re-evaluated the sustainable yield for the areas of public native which are economically accessible and available for timber production. It reduced the supply from those areas by 31 percent; providing a commitment to industry of 567,800m³ of D+ sawlogs per annum. The estimated supply for the east of the State (under VicForests management) was 517,400m³ of sawlogs per annum, with additional areas available in the West of the State.

Since the release of the OFOF Policy there have been two major fire seasons (2002/03 and 2006/07) that “will significantly affect the age class distribution of commercial forests in burnt out areas.”⁸ Projections of annual resource supply fell to as low as 380,000m³ of sawlog per annum⁹, which would have devastating implications for the industry.

Reductions in area and yield available from public native forests risk reducing the scale of operations to below the scale needed to maintain economies of scale for VicForests and the industry. The area available for timber production is already marginal and should not be restricted due to events outside the industry’s control.

The industry has undergone significant structural adjustment as a result of the reduction in the sustainable yield under OFOF and the VicForests price allocation model. It has also been the primary bearer of risk associated with resource reductions from fire.

The sustainable yield for public native forests is under review as part of the TIS and in preparation for the forthcoming DSE/VicForests joint resource statement. The VAFI supports the adoption of methodological approaches suggested in the 2007 Poyry Report¹⁰ and inclusion of fire impacts to develop a better estimation of the sustainable yield. It is important that changes to the assessment of sustainable yield, such as changes to the methodology based on new science and improved data follow a predictable and transparent process.

Providing a commitment to long term resource security

The sustainable yield must specify the amount of timber available as well as the species and quality mix. This is important for the development of markets for a range of species, log sizes and quality and associated investment in processing technologies. In particular, the communication of the range of species and quality available is essential to improving resource efficiency and developing markets for high-value products.

The sustainable yield objective, including the species and quality mix, and the process for variation need to be legislated.

The allocation order for VicForests must be extended to 40 years to facilitate greater long term resource security for the industry. Security of tenure is a fundamental requirement for the efficient and equitable operation of the VicForests price allocation model moving forward (see section on VicForests price allocation model).

It would also facilitate investment from VicForests in longer term silvicultural investments (thinning) and in fire protection. A longer tenure is provided in New South Wales, Western Australia and Tasmania. The VAFI also supports the greater facilitation of private hardwood sawlog resources (see section on plantations and private native forestry).

⁸ STIC (2007)

⁹ VicForests

¹⁰ Poyry (2007) A review of the method used to determine a sustainable level of timber harvesting from eastern Victorian State forests, Report for VicForests, July



VAFI recommendation

The Victorian Government must commit to public support for native forestry, promote the role of forestry in responsible management and stewardship of native forests.

It must provide a level of resource security for wood supply from public native forests which does not risk reducing the scale of operations to below the scale needed to maintain economies of scale for the industry.

- There should be no further reduction in the 'net productive area' which is available for timber production.
- The land base that is available should be firmly guaranteed through long term legislation along with a sustainable volume of supply objective.
- The DSE Wood and Water project must be science based and consider socio-economic impacts in its assessment of management options to improve water yield in Melbourne's water supply catchments. It must not result in any net loss of forest resource for the industry.
- The Government must establish a baseline for hardwood sawlog production from public native forests, including specification of the amount of timber and the species and quality mix. Any changes to the data and methodology for assessing the baseline should follow a predictable and transparent process.
- The baseline sustainable yield, including the species and quality mix, and the process for variation should be legislated.
- Amend the Sustainable Forests (Timber) Act 2004 to provide VicForests with a much longer period of secure resource tenure from the available public native forests in eastern Victoria (at least 40 years)

Government support is required to develop additional sources of hardwood sawlog supply from private native forests and plantations



The VicForests Price Allocation Model

There has been extensive structural change in the Victorian hardwood processing sector over the past 10 to 15 years. This has included a significant reduction in resource availability and a move to an auction based system for the allocation and pricing of native forest hardwood sawlogs, which is administered by VicForests as the Victorian Government's commercial enterprise responsible for the sustainable harvest and commercial sale of timber from state forests.

The VicForests auction system has artificially accelerated industry rationalisation. The number of hardwood sawmills has declined dramatically since the Our Forests Our Future Policy in 2002 through a series of closures, mergers and acquisitions.¹¹ Despite the increased competitiveness of the industry, the structural adjustment has caused job losses and social impacts and there is a risk that industry consolidation may lead to regional monopolies.

The TIS provides an opportunity to review and improve the VicForests Price Allocation Model.

Background

VicForests and its price allocation model were established in 2004. The volume of timber available for sale by VicForests is established under an allocation order from the Minister for the Environment for a 15 year period. VicForests receives timber rights through five year timber release plans approved by DSE and has responsibility for sustainable harvesting, sale of resources and all post harvest rehabilitation and regeneration works.

The 15-year timber allocation licences introduced through Victoria's previous Timber Industry Strategy are due to expire by 2010. VicForests has implemented "5 year step down" transition supply contracts that will see volumes committed under licences progressively decline up to 2014, with the majority of commitments ceasing in 2010-2012.

VicForests plans competitive auctions of timber sale contracts every six months. Log allocations will be based primarily on auctions by 2012 and completely on auctions by 2015. The auction system is currently predominantly selling forward volumes that will become available as existing licences expire.

The industry's experience with VicForests auctions

The first auction was completed on 3 April 2006 and was for a total of 174,000m³, with a weighted average contract period of 4.3 years, for varying periods between 2006 and 2015. It resulted in significant increases in log prices, averaging around 150-160 percent of the existing stumpages resulting from administered prices.¹²

The second online auction was completed on 26 June 2006 and was for a total of 680,000m³, with a weighted average contract period of 5.9 years, covering varying periods between 2006 and 2015. Prices were higher than for the first auction.¹³

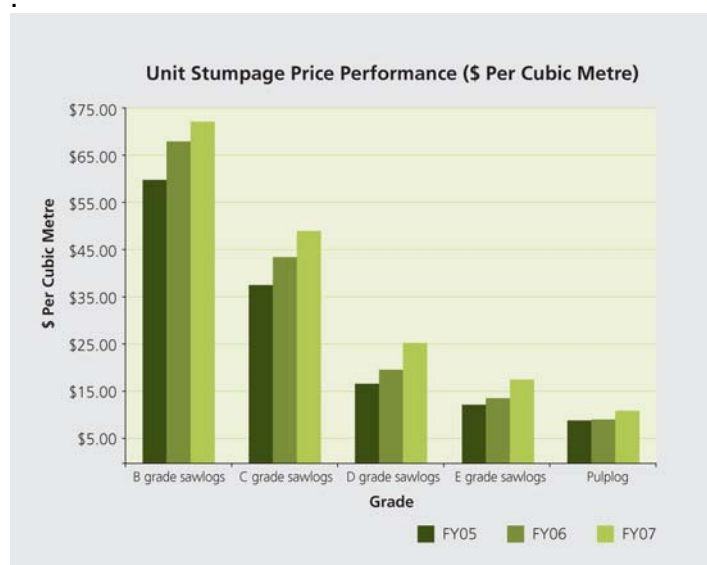
¹¹ Sawmill closures since 2002 include Calco, Bennett, Blackforest Timbers, Friths, Corrigan, Drouin West Timber's Drouin site, Blue Ridge mills, Demby Timber's Toolanggi site with Murnane's closure forthcoming and Global Timbers in administration. Mergers and acquisition include the merger of McCormack Demby Timbers, ITC's acquisition of Neville Smith Timber Industries and Gould's sawmill and the acquisition of Drouin West Timber's Morwell site by McCormack Demby Timbers.

¹² URS Forestry (2006) Impacts of log auctions on The Victorian native hardwood sawmilling industry, Prepared for the Victorian Association of Forest Industries

¹³ Ibid.



There have been five online and five sealed bid auctions to date. Log prices per cubic have steadily increased since the introduction of the auction system (see chart below)



Source: VicForests (2007) VicForests Annual Report 2007, p. 29

At 1 July 2006, VicForests introduced mill door sales, which has, amongst other factors, contributed to the recent price increase in logs per cubic metre.

In the 2006/07 financial year sawmills closed in Murrindindi, Broadford and Toolangi. Although industry consolidation is often quoted as increasing the competitiveness of the remaining industry operators¹⁴, there is a risk that a lack of resource availability and resource security through the price allocation model drives industry consolidation to a point where high-value niche producers are lost and only a small number of regionally-based, large operators remain, who can then drive down prices in a less competitive environment.

Auction structure and administration

Despite the Our Forests Our Future commitment in 2002 of 567,000m³ of D+ grade sawlogs being available to the industry per annum, the actual supply volumes have been much lower. Most recently a projection of 380,000m³ per annum was put forward by VicForests. This figure was significantly less than the 567,000m³ of sawlogs per annum, which was estimated in the east of the State under OFOF and it was less than the 450,000 – 500,000m³ per annum expected by VicForests' customers following the 2003 and 2005/06 bushfires.

In 2007, VAFI had to negotiate the deferral of a VicForests' auction for resources available past June 2010. The deferral was required because only two weeks notice was provided a significant proportion of the resource would be auctioned, with a significant decline in timber to be made available each year after.

Whilst the industry understands the need to respond to the impact of bushfires on the sustainable yield, the process for updating sustainable yield estimates must be predictable and transparent. It is untenable for VicForest customers to bear all the risk of resource availability, threatening their commercial viability and discouraging investment.

¹⁴ VicForests (2007) and IndustryEdge Pty Ltd (2007) Forest & Wood Strategic Review 2007: A Comprehensive Analysis of the Australian Forest & Wood Products Industry – its Opportunities and Growth Constraints, Hobart

Improved security of tenure is a fundamental requirement for the price allocation model moving forward. This is possible through extending the allocation order to VicForests to 40 years (currently 15) and increasing the timber release plan from 5 to 20 years (see section on Sustainable yield, area and volume of resource available from public native forests).

The timing and structure of auctions also requires better administration. Industry requires a mix of lot sizes and contract periods, including contracts for longer tenure to facilitate a stronger supply basis on which to operate and invest.

As the events leading up to the deferral of the October 2007 auction indicated, better planning and communication between VicForests and its customers is required. There needs to be established and transparent procedures for planning auctions. This includes consideration of the timing and structure of auctions and socio-economic factors such as regional development.

Supply contracts and practices

A review of the terms and conditions of VicForests supply contracts is required to ensure commercial fairness. The VAFI is aware of cases where the terms of supply contracts have been exploited by VicForests where there has been a failure to supply wood as agreed.

Where VicForests' customers cannot be assured of supply as agreed under legally enforceable and equitable supply contracts, resource security is further undermined and business risk rises considerably. Supply contracts must be made legally enforceable, in line with New South Wales, Western Australia and Tasmania. Accordingly, there must be adequate (and non-negotiable) compensation for failure to comply with supply provisions in contractual agreements.

This is necessary to provide greater certainty for VicForests' clients, particularly mixed species processors who must manage commercial supply contracts of their own.

VAFI recommendation

Improved security of tenure is a fundamental requirement for the price allocation model moving forward.

- This is possible through extending the allocation order to VicForests to 40 years (currently 15) and increasing the timber release plan from 5 to 20 years.

The timing and structure of auctions also requires better governance.

- Industry requires a mix of lot sizes and contract periods, including contracts for longer tenure to facilitate a stronger supply basis on which to operate and invest.
- There needs to be established and transparent procedures for planning auctions, including consideration of the timing and structure of auctions and socio-economic factors such as regional development and better communication from VicForests to its clients.

A review of the terms and conditions of VicForests supply contracts is required to ensure commercial fairness.

- All supply contracts must be made legally enforceable, in line with New South Wales, Western Australia and Tasmania.
- Accordingly, there must be adequate (and non-negotiable) compensation for failure to comply with supply provisions in contractual agreements.



Plantations and private native forests to augment existing resources from public native forests

Plantations are a uniquely commercially viable, environmentally sustainable and socially responsible land use. The 2005 Plantation Incentives Strategy Direction Statement notes that there will be a clear shortage of hardwood timber in the future as availability decreases while demand for high quality products continues to increase.¹⁵ Plantation development provides a range of future resource opportunities.

Long rotation plantations and private native forests have the potential to strengthen and diversify the long term resource security of the Victorian hardwood industry. These resources are currently under utilised. The lack of investment in long rotation plantations and private native forests is influenced by the onerous regulatory restrictions and the long time horizons for return on investment.

Plantations

Victoria has a total plantation estate of 394,000 hectares; 219,000 hectares of softwood and 175,000 hectares of hardwood. This represents about 22 percent of Australia's total plantation area.

The expansion of softwood plantations has slowed and is now focused on new plantings on existing sites.

Hardwood plantations have increased rapidly since the early 1990s. Most are short rotation Eucalyptus plantations, supported by Managed Investment Scheme (MIS).

The Commonwealth Government has recently made changes to the MIS tax incentive arrangements which allow investors immediate deductibility, provided at least 70 percent of expenditure is direct forestry expenditure, and the ability to sell their interests after a period of four years.

These changes provide an ongoing basis for hardwood plantation development and more flexible arrangements which will encourage investment in longer rotation plantations. However, there remains sovereign risk for plantation developers from future changes in government policy.

Farm forestry for commercial sawlog production and environmental services has been supported through a variety of State and Commonwealth Government programs. These programs have delivered a small amount of sawlog plantations as well as supporting innovative solutions to provide ecosystem services through farm forestry such as salinity mitigation and water quality improvement. They also contribute to the knowledge base about the relationship between planted forests and other environmental services.

Based on the limited data available, there are 25,000 hectares of farm forestry plantations. However, over half (14,000 hectares) are short rotation plantings on land leased by farmers to MIS companies.

State Government policy should give priority to ensuring that plantations are planned for long term high quality sawlogs as well as fibre for pulp and paper production. There is a need for government involvement to attract investment in long rotation plantations where there is

¹⁵ Department of Primary Industries (2005) The Plantation Industries Incentives Strategy: Direction Statement, Agriculture Industry Policy, www.dpi.vic.gov.au



evidence of market failure.¹⁶ The case of government incentives and support is common in other countries.

Private native forests

Victoria has approximately 1.3 million hectares of private native forest, of which 350,000 hectares is available for commercial production. There is a lack of information about the productive capacity of private native forests. The volume of logs harvested from this resource is small.

In addition, there are regulatory constraints to managing private native forests for production purposes. Local government is responsible for administering the Code of Practice for Timber Production for these forests within the scope of approving local development permits. The VAFI believes this is an unreasonable imposition on the limited resources and expertise (in relation to forestry) of local government. The Department of Primary Industries has the expertise to administer this Code and provide advice to local government as required.

The promotion and development of grower cooperatives would provide economies of scale for small-scale private native forest growers in marketing their products and potentially for achieving certification for sustainable forest management.

It is important that appropriate policy settings and regulatory frameworks are developed and supported by government leadership to encourage the development of long rotation plantations and private native forestry.

Government support

The industry welcomes and supports the policy positions on plantation forestry as set out in:

- The Commonwealth Government's Plantations for Australia: the 2020 Vision;
- The Victorian Government's Provincial Statement: Moving Forward;
- The Plantation Incentives Strategy Directions Statement (DPI, 2006); and
- Farm Forestry National Action Statement (2005).

However, there is a need for greater support from the State Government beyond the published policy statements. In particular, there is a need to build support for and a greater understanding of the socio-economic and environmental contribution of plantation and private native forestry at the state, regional and local levels of government and in the community. In particular, government policy should recognise the benefits that the plantation industry can provide to carbon sequestration, the provision of biodiversity, improving water quality and addressing land degradation (e.g. dryland salinity).

In particular, regional Catchment Management Authorities (CMAs) must be encouraged to work with plantation companies to value and recognise the tangible multiple benefits that can be delivered by supportive plantation design. Plantations and farm forestry can contribute to those goals and there are opportunities for industry to work with CMAs to provide greater regional benefits.

The regulatory environment for plantations and private native forestry requires urgent attention. As discussed below, there is a need for a centralisation of regulatory oversight of plantation approvals at the State level.

¹⁶ URS Forestry (2007)

Regulatory restrictions

Regulatory requirements are a significant impediment to plantation development and private native forestry in Victoria.

Planning and approvals

Local government is responsible for planning and approvals for plantations through planning permits. Local government can require a planning permit for plantation development under the Environment and Planning Act 1987 by:

- Specifying minimum area that if exceeded requires a planning permit¹⁷; or
- Implementing zoning and planning rules which require a planning permit (i.e. controls on the removal of native vegetation).

Where a planning permit is necessary, local government specifies the requirements that must be met and is responsible for verifying compliance with the Code of Practice for Timber Production.

In practice, these arrangements have created a complex, inconsistent and onerous set of requirements for the establishment of plantations across the State. It would be more efficient and effective to have a state-wide approach.

Native vegetation retention requirements including the 'net gain policy' present practical difficulties and suboptimal outcomes for natural resource management in Victoria. The framework for exemptions to native vegetation removal requirements must provide for consistency and transparency in application and must focus on regulating proposals with significant implications.

There is inconsistency in the application of the requirements across the State with some local governments imposing requirements which conflict with State Government policy. The plantation industry has endeavoured to work constructively with local governments but most local governments have limited technical expertise with which to assess plantation developments and referrals to other government agencies and procedures to resolve objections by proponents incur time delays which increase the cost of investing in plantations in Victoria.

The forestry industry believes the regulatory environment for investment in plantations in Victoria is far less competitive than in other states such as New South Wales, where a statewide approach to plantation established is administered by the Department of Primary Industry.

These problems with the current regulatory arrangements for plantation establishment were recognised by the Victorian Competition and Efficiency Commission (VCEC) in its review into regulatory barriers to regional economic development in 2005.¹⁸

There is a need for equitable, enduring and consistent implementation of Government policies at State, departmental and local levels. The VAFI supports the recommendations of the VCEC, which clearly identified regulatory impediments and notes the Victorian Government's supportive response to those recommendations. The TIS must support the implementation of the VCEC's recommendation that the Victorian Government establish a

¹⁷ The minimum area which can be specified is 40 hectares. The local government's planning scheme must be approved by the State Minister for Planning.

¹⁸ VCEC (2005)



Statewide approvals process, administered by DPI, for the establishment of plantations in which accredited operators would be deemed to comply with planning provisions. The VCEC stated the process should be:

1. “Based on accreditation of ongoing compliance with an enhanced Code of Forest Practice¹⁹;
2. Consistent with best practice principle of regulation; and
3. Developed in consultation with key stakeholders including industry, environmental groups, the Department of Sustainability and Environment and local government.”²⁰

The VAFI fully supports the STIC recommendation that “private landholders should be allowed to register their forest for timber production under Sustainable Forest Management (SFM) protocols and thereby gain exemption from other aspects of the planning system such as Native Vegetation Retention regulations (recognising that important areas of remnant vegetation will need particular attention).”²¹

The review this year of the *Environment and Planning Act 1987* is timely for addressing regulatory requirements which are biased against appropriate development and inconsistent in application with government policy to promote plantation development. The VAFI calls on DPI to propose changes to the Act in line with policy developed through the TIS.

Land use change and water impacts

DPI is currently undertaking a project to assess the impacts of different land uses and land use change on surface, sub-surface and groundwater runoff and to recommend management options for land use planning.²² The issue of water use and impacts in land use planning must be science-based and form part of the Statewide approvals process recommended by the VCEC. Plantations must be treated equitably alongside other land uses.

Equitable treatment in regulation and policy

There are a number of cases where forestry is treated differently than other agricultural activities within legislation, regulation and policy, leading to regulatory impediments for plantations. Examples include:

- Aboriginal Heritage Regulations - specifically identifies forestry as the only high impact agricultural activity;
- Application of the Extractive Industries Act – does not consider plantations as ‘farms’;
- The Road Management Act – timber production is singled out as ‘extraordinary traffic’;
- Crown Licences (Unused Roads) – plantations are required to pay according to land valuations but other agricultural activities pay according to production value; and
- Enforcement of VicRoads Policy - it appears that driveway specifications are applied exclusively to plantations.

The treatment of forestry as exclusive to other agricultural activities in legislation, regulation and policy imposes additional charges and an additional regulatory burden on plantation managers in particular relative to other agricultural producers. It is essential that forestry be treated equitably in regulation and policy to other agricultural land uses. There is a need for DPI to work with plantation companies to ensure plantation development and management is placed on equitable footing with other land uses in regulation and policy.

¹⁹ The Code has been reviewed and an enhanced version published in 2007.

²⁰ VCEC (2005)

²¹ STIC (2007)

²² Action 2.20 of the Victorian Government’s Water White Paper: Securing Our Water Future Together.



Facilitating the development of long rotation plantations and private native forests

In addition to streamlining regulatory requirements for plantation development to address inconsistent application and perverse outcomes, there are several areas where government support is required to facilitate the maintenance of a resilient and competitive plantation sector and the development of long rotation plantations and private native forests to provide additional hardwood sawlog supplies.

URS Forestry identified evidence of market failure for long rotation plantation investment and a case for government incentives and/or subsidies to encourage investment in these plantations.²³

The industry believes the government can address market failure in this sector by:

- reducing sovereign risk for investors and providing a consistent, transparent and equitable regulatory environment;
- Supporting new Commonwealth taxation arrangements which allow for liquidity in investment in long rotation plantations. The support of the Victorian Government is important to ensure the continuation of credible taxation arrangements;
- Supporting research and provision of information to encourage investment, identify suitable land and enhance the understanding of plantations, farm forestry and private native forestry by CMAs, local government and the community;
- Supporting the development of emerging markets which can provide income for environmental services provided by plantations and private native forests including:
 - The development of rules in a national emissions trading system which encourage use of bioenergy, recognise carbon stored in forests and harvested wood products and provide financial incentives for long rotation plantations;
 - Continued development of markets for environmental services provided by plantations and private native forests through government programs and the private sector;
- Continuing support for programs to provide technical services and advice to potential investors, farmers and land owners; and
- Cooperating with industry to develop the infrastructure and attract and develop the skilled workers required to take advantage of market opportunities and maintain international competitive.

Short rotation eucalypt plantations are becoming available for harvest and present important value-adding and export opportunities for Victoria. For example, it is estimated there will be 3.7 million tonnes of hardwood pulpwood produced annually in the Green Triangle region by 2013.

Industry has demonstrated initiative in developing the infrastructure required, with three companies jointly funding a world-scale woodchip export facility at Portland. There is a need for government to cooperate with industry to address challenges in developing and attracting a skilled workforce, in establishing the necessary transport infrastructure, and in facilitating the establishment of new processing facilities to value-add the resource.

There is a particular role for the Victorian Government in facilitating the development of private native forest resources. This includes the preparation of an inventory of productive, private native forests and assistance for small-scale owners to form cooperatives, meet regulatory requirements, achieve certification for sustainable forest management and realise market opportunities. Assistance might take the form of provision of training, payments for

²³ URS (2007)

environmental services provided by private native forests and tax incentives for sustainable management of private native forests. URS Forestry notes that the level of support for private native forest producers in Victoria is well below that of other countries such as the United States or Finland.²⁴

VAFI recommendation

There is a need for greater leadership support from the State Government

- There is a need to build support for and a greater understanding of the socio-economic and environmental contribution of plantation and private native forestry at the state, regional and local levels of government and in the community.

There is a need for a centralisation of regulatory oversight of planning and approvals for plantations and private native forests at the State level.

- The TIS must support the implementation of the VCEC's recommendation that the Victorian Government establish a Statewide approvals process, administered by DPI, for the establishment, management and harvesting of plantations in which accredited operators would be deemed to comply with planning provisions.
- Private native forestry should be allowed to be regulated under sustainable forest management protocols and where possible, exempted from native vegetation retention regulations.
- The review of the Environment and Planning Act 1987 this year must be consistent with policy developed through the TIS.
- The issue of water use and impacts in land use planning must be science-based and form part of the Statewide approvals process recommended by the VCEC.
- There is a need for DPI to work with plantation companies to ensure plantation development and management is placed on an equal footing with other land uses in regulation and policy.

There is evidence of market failure in this sector, which can be addressed by the Victorian Government in the following ways:

- Reducing sovereign risk for investors by providing a consistent, transparent and equitable regulatory environment;
- Supporting new Commonwealth taxation arrangements which allow for liquidity in investment in long rotation plantations;
- Supporting research and providing information to encourage investment, identify suitable land and enhance the understanding of forestry by CMAs, local government and the community;
- Supporting the development of emerging markets which can provide income for environmental services provided by plantations and private native forests including carbon sequestration;
- Continuing support for programs to provide technical services and advice to potential investors, farmers and land owners; and
- Cooperating with industry to develop the infrastructure and attract and develop the skilled workers required to take advantage of market opportunities and maintain international competitiveness.

²⁴ URS Forestry (2007)



Industry investment and development

Investment is crucial for ensuring the growth and international competitiveness of the forestry and forest products industry. It is also an indicator of investor confidence in the future of the industry. Industry investment and development is important for the resilience and growth of regional communities.

However, business confidence in the Victorian forestry and forest products industry is low. There is a high degree of uncertainty due to declining resource availability from native forests and a lack of resource security. There is also a perception that Victoria has a higher risk for investors than other states such as New South Wales, Western Australia and Tasmania. The industry is concerned about regulatory settings including those for government procurement, building codes, plantation establishment and the commercial use of private native forests, which need to be streamlined and applied equitably and consistently.

In addition, the hardwood sector faces increasing competition from overseas producers, substitute materials and illegal logging. Further consolidation is predicted based on current resource estimates, higher prices for logs and competitive pressures on smaller sawmills with a trend towards larger scale, high value adding and specialist sawmills. URS Forestry notes that the “native sawn timber sector in Victoria faces significant challenges simply to survive.”²⁵

There has been significant structural adjustment in the Victorian hardwood sector since the last Timber Industry Strategy in 1986. Average harvest volumes from public native forests have declined by 3.6 percent on average per annum since 1996/97. The number of hardwood sawmills has declined from over 100 in the early 1990s to less than 40 at present.²⁶ Structural adjustment has entailed the exit of many smaller sawmills, industry rationalisation and a shift to value-adding through kiln drying on sawn timber and a focus on appearance grade markets.

Despite the current uncertainty, during the 2006/07 financial year, significant new investments in timber processing were announced or completed by Dormit Pty Ltd (Swifts Creek), ITC Pty Ltd (Heyfield), Australian Paper (Maryvale), McCormack Demby Timbers Pty Ltd (Morwell), Midway Pty Ltd (Geelong) and SEFE Pty Ltd (Eden).²⁷ These investments reflect the consolidation of the industry and a move to value-adding. These companies are mostly represented by the VAFI.

There remain significant opportunities for new industry investment and development in Victoria. These include:

- Supply opportunities - the development of long rotation plantations, farm forestry and private native forestry;
- Processing opportunities – value-adding in hardwood processing and the adoption of new processing technologies, potential opportunities for pulp and paper processing plants and export opportunities including for woodchips; and
- Market opportunities – opportunities created within a national emissions trading scheme, the development of new products including bioenergy, markets for environmental services, opportunities from the appropriate recognition of wood products in environmentally sustainable design.

²⁵ URS Forestry (2007)

²⁶ URS Forestry (2007)

²⁷ VicForests (2007)



Addressing threats to the industry and capitalising on opportunities for investment and growth will be essential to ensuring the Victorian hardwood sector's continued viability and development.

A secure and diverse resource base

Value-adding and investment in new technologies for processing of hardwoods will be crucial to the ongoing development of the hardwood sector in Victoria. Investment by the hardwood processing sector is heavily dependent on resource security. Investments in new technologies are medium term investments and require a reasonable degree of certainty of supply over the payback period for the investment. Under the current allocation arrangements, most hardwood processors in Victoria only have a secure resource supply for the short term. The industry requires a secure resource base to ensure the future viability of hardwood sawmills and the continuation of value-adding investment (see also section on sustainable yield and resource availability).

Given the investment uncertainty created by recent changes to the sustainable yield, the VAFI believes there is a potential role for the Victorian Government to improve resource security through provision of 'Investment Security Guarantees' such as those provided by the Western Australian Government.

The development of long rotation hardwood plantations, farm forestry and private native forestry in Victoria could provide additional resources in the medium to long term. Utilisation of these resources will also require some investment by the processing sector in new technologies to process smaller plantation and native forest regrowth logs. It will also require actions by the Victorian Government to ensure a more consistent and equitable regulatory environment (see section on long rotation plantations). There may also be opportunities for the establishment of pulp mills in Victoria, which could draw on the hardwood pulpwood resource coming on stream.

New market opportunities

The emergence of new markets provides opportunities for the forestry and forest products industry to provide additional services and products for financial gain (and delivering environmental and socio-economic benefits).

In particular, the development of a national emissions trading market provides opportunities for the value of carbon sequestered by commercial forests to be realised financially. It could also support new markets for the use of forest residues and sawmill residues for bioenergy and biofuels. The recognition of carbon stored in long lived wood products within a national emissions trading scheme has the potential to provide financial remuneration to the industry for providing these products and to improve the understanding in the marketplace of the environmental credentials of wood products.

There is significant scope for the expansion of markets for environmental services, including those driven by regulation (offset requirements), government-funded programs and voluntary markets. Private native forestry and plantations in particular can provide environmental services including provision of habitat, water quality improvement and salinity mitigation through the design of plantations and the adoption of specific management regimes.

Government support is required to help the industry realise these market opportunities which can improve the potential of the industry to grow sustainably.



Meeting infrastructure needs

The ability of industry to capitalise on investment opportunities is constrained by the level of supporting public infrastructure.

Transport infrastructure (roads, rail and ports) is a priority for all rural industries, including the forestry and forest products industry. There is a need for adequate expenditure and management of the national, state and local road network. This requires improved communication and partnerships between State and local governments where upgrades of road infrastructure are required.

Forestry tends to create a high volume of freight traffic over short periods of time due to the intensity of harvesting operations and long rotations relative to other primary industries. In a number of instances the industry has been subject to regulatory constraints or charges for freight. There is a need to ensure that such constraints and charges are not applied discriminatorily to the forestry industry. Where charges are paid, they must be directed to ways to optimise transport infrastructure.

Public infrastructure, including health, education, housing and community amenities, must be provided in accordance with changing populations and community needs.

Government and public support for a sustainable forestry and forest products industry

The greatest challenge and the crucial ingredient to the viability and growth of the forest industry in Victoria is building a greater understanding of and support for forestry. Government support and partnership with industry is important in demonstrating the industry is sustainable and provides significant socio-economic benefits to regional communities.

Government procurement policies and building codes must pursue a whole-of-life cycle approach to materials and fully recognise the environmental credentials of wood and wood-based products.

There is a role for the Victorian Government to provide information on industry practices and sustainable forest management, including recognition of best practice. The promotion of certification of sustainable forest management and DSE's environmental management system for forest management is necessary throughout government. Information about the benefits and social, environmental and economic impacts of the industry must be communicated throughout government, including local government.

The industry established Forest and Wood Products Australia (FWPA) to continue the important research work of the FWRPDC and to extend its scope to promotion of forests and wood products. The industry believes cooperation with government is essential to maximising the potential of the FWPA's promotion activities, in particular, where there is a need to build community awareness of sustainable forest management and the environmental benefits of wood and wood-based products.



VAFI recommendation

The Victorian Government needs to provide a stable and competitive environment for investment, including new investment in wood, pulp and paper processing and plantations.

The industry requires a secure resource base to ensure the future viability of hardwood sawmills and the continuation of value-adding investment.

- There is a potential role for the Victorian Government to improve resource security through provision of 'Investment Security Guarantees' such as those provided by the Western Australian Government.
- Actions are required to ensure a more consistent and equitable regulatory environment for plantations and private native forestry (see section on long rotation plantations and private native forestry)

Government support is required to realise new market opportunities in renewable energy, carbon trading and environmental services (see section on emerging markets).

The Victorian Government must continue to work with industry to identify infrastructure needs and to maintain the necessary community and transport infrastructure in rural areas.

- There is a need for adequate expenditure and management of the national, state and local road network.

There is a need to ensure that regulatory constraints and charges for freight are not applied discriminatorily to the forestry industry. Where charges are paid, they must be directed to ways to optimise transport infrastructure.

The Victorian Government must commit to public support for native forestry and promotion of the role of forestry in responsible management and stewardship of native forests and the environmental benefits of use of wood and wood-based products.

- The industry seeks cooperation with government to build community awareness of the forestry and forest products industry.
- The Victorian Government's forestry policy, as articulated in the TIS must be adopted consistently across Government departments and statutory authorities and be reflected in all related policies accordingly.



Emerging markets including renewable energy production and an emissions trading scheme

New markets are emerging for environmental and economic services which sectors of the forest industry can provide.

An emissions trading scheme

The Australian Government has committed to the establishment of an Australian emissions trading scheme (ETS) by 2010. The Rudd Government and the State Governments commissioned economist Professor Ross Garnaut to analyse and report on an appropriate design for an ETS. The Garnaut Climate Change Review is due to deliver its draft report to the Government by 30 June 2008.

The Minister for Climate Change, the Hon. Penny Wong has indicated that the Government will produce a Green Paper on the design of an ETS by 30 July 2008 with public consultation and the development of legislation to follow.

The Garnaut Review has indicated that an ETS should be as broad as possible with forestry to be included 'as soon as practicable.' However, the Review stated in its discussion paper on the design of an ETS that it may be possible that

"some components of these sectors could be included under baseline and credits and debits arrangement ahead of general sectoral inclusion of an ETS. This would provide a transitional incentive to reduce emissions, prior to such activities being covered under the ETS."²⁸

It is considered that forestry processors would be included from the commencement of a scheme under the category of 'industrial processes'.

The VAFI supports the submission on the Garnaut Climate Change Review's Emission Trading Scheme Discussion Paper by the National Association of Forest Industries²⁹.

Within this context, the VAFI supports the full coverage of the forestry sector within an ETS, subject to the resolution of the following issues:

- Usability of carbon accounting software, including:
 - Ensuring NCAS is based on the best available science for different forest types and applicable for use at the individual forestry company level; and
 - Providing adequate training for forest industry representatives on how to use NCAT
- Due recognition of carbon stored in harvested wood products, including determining the methodology for the incorporation of carbon stored in wood products under an ETS
- Clarification of and industry agreement on ETS implementation rules for forestry, including:
 - Determining the appropriate point of obligation for forestry emissions and sequestration;
 - Determining the appropriate eligibility dates for production forests to be recognised as existing or new forest;

²⁸ Garnaut Climate Change Review (2008) Emissions Trading Scheme Discussion Paper, March, p. 30, [http://www.garnautreview.org.au/CA25734E0016A131/WebObj/ETSdiscussionpaper-March2008/\\$File/ETS%20discussion%20paper%20-%20March%202008.pdf](http://www.garnautreview.org.au/CA25734E0016A131/WebObj/ETSdiscussionpaper-March2008/$File/ETS%20discussion%20paper%20-%20March%202008.pdf)

²⁹ National Association of Forest Industries (2008) 'Submission to the Garnaut Climate Change Review – Emissions Trading Scheme Discussion Paper', www.nafi.com.au/files/library/Garnaut_ETTS_Paper_050508.pdf



- Defining carbon credits from forestry as spatially and temporally fungible – in line with the principles of homogeneous internationally traded financial products; and
- Clarifying the allocation mechanism for credits from covered sectors which provide carbon sequestration
- A limited liability arrangement for native forests and existing plantations
 - Native forests should be exempted from liability for emissions for any forest not eligible for credit because of defined benchmark dates; rules are required which exempt forest managers from liability for natural disturbances such as wildfire; and
 - Resolution of issues associated with policy/rules and carbon accounting for existing (i.e. pre-benchmark date) native forests and plantations to avoid the assignment of any unrepresentative carbon profiles. Until such time as this occurs management of these forests should be deemed carbon neutral under an ETS.

In assessing and agreeing on solutions for the issues above, there needs to be:

- Comprehensive completion of carbon profiling of forests, forestry activities and forest products;
- Comprehensive economic and social impact assessments arising from key ETS rules scenarios; and
- An evaluation of the impacts of scheme design on broader forest policy settings.

Where necessary, the objective of full coverage provides a basis for a work plan to assess the impacts of differing carbon accounting methods and rules for implementation and to negotiate practical and equitable rules for adoption in the ETS.

The TIS should be consistent with the outcomes of the Commonwealth Government's process for the development of an Australian ETS and it should maximise the opportunities for Victoria's forestry and forest products industries to derive commercial competitiveness from the ETS.

The Victorian Government should also support policy settings for forestry, renewable energy and the procurement and promotion of forest products which are consistent with the ETS and its aim to minimise emissions of greenhouse gases.

The Victorian Government has a role in supporting recognition of the carbon friendly attributes of wood and wood-based products through complementary procurement, research and development and promotion policies.

The VAFI also recommends the Victorian Government provide support and resources for the research work required to develop appropriate rules for the forestry sector's successful inclusion in a national ETS.

Renewable energy

In Victoria, there is existing production using wood waste in processing operations for bioenergy. There are also a number of examples of use of biomass for bioenergy in Australia and internationally. There are opportunities to expand the use of sustainably produced wood waste for renewable energy in the forestry and forest products industry in Victoria.

There are existing regulatory restrictions to the use and recognition of wood waste (particularly that sourced from native forests) in the renewable energy market in Victoria. The



Victorian Renewable Energy Target (VRET) restrictions are not consistent with policies to minimise national greenhouse gas emissions.

Use of renewable energy from sustainably produced wood waste and forest residues should be promoted within a national ETS.

The Victorian Government should remove impediments to use of wood waste for energy and should align policy settings with the aims of the ETS to promote use of wood waste for renewable energy.

The Victorian Government should also facilitate research and development to improve the commercial viability of bioenergy technologies.

VAFI recommendation

The TIS should be consistent with the outcomes of the Commonwealth Government process for the development of an Australian ETS and it should maximise the opportunities for Victoria's forestry and forest products industries to derive commercial benefits from the ETS.

The Victorian Government should also support policy settings for forestry, renewable energy and the procurement and promotion of forest products which are consistent with the ETS and its aim to minimise emissions of greenhouse gases.

The Victorian Government has a role in supporting recognition of the carbon friendly attributes of wood and wood-based products through complementary procurement, research and development and promotion policies.

The VAFI also recommends the Victorian Government provide support and resources for the research work required to develop appropriate rules for the forestry sector's successful inclusion in a national ETS.

There is a role for the Victorian Government to work with the Victorian industry to promote the recognition of carbon stored in harvested wood products, the use of bioenergy and the development of carbon accounting arrangements for native forests and plantations which limit the emissions liability risk from uncontrollable events (e.g. fire) and regimes aimed at mitigating emissions (e.g. fuel reduction burns) in a national ETS.

The Victorian Government should take a proactive position to encourage wood waste and sawmill residue biomass and cogeneration activities including:

- Removing impediments to use of wood waste for energy;
- Aligning policy settings with the aims of the ETS to promote use of wood waste for renewable energy; and
- Providing industry development assistance such as that provided by other state governments (e.g. NSW).

Occupational Health and Safety in the harvest and haulage and processing sectors

VAFI members support occupational health and safety as a priority for the processing sector and the role of Work Safe Victoria as the manager of Victoria's workplace safety system.

We recognise the need for continuous improvement including improved consistency in the application of occupational health and safety (OH&S) standards across the sector.

There remains a need for initiatives to ensure a greater consistency in compliance through provision of support for improved practices, including training and by improving communication on changes in requirements and in educational materials.

In addition, best practice should be recognised and promoted.

Addressing OH&S liability for industry fire suppression obligations

A recent death during a fire suppression operation has exposed a liability risk for VAFI members engaged in such operations.

In January 2008, an employee of a VAFI member was killed in an accident whilst using a bulldozer on fire suppression duties under the direction of the Department of Sustainability and Environment. The company is now facing a likely prosecution by WorkSafe.

According to the Sustainable Forests (Timber) Act 2004, the Secretary of DSE (or their representative) can direct any person undertaking or engaged in timber harvesting operations to make that person's employees, plant and equipment available to assist in fire suppression.³⁰

The forestry industry understands the threat posed by severe wildfire to lives and property as well as to Victoria's forests. It provides significant support to government and voluntary fire suppression efforts.

However, there is a clear need to review and amend the legislation to ensure that companies engaged in government-directed fire suppression efforts are protected and indemnified against loss of equipment and possible legal action from government agencies such as WorkSafe.

VAFI recommendation

Occupational health and safety in the processing sector is a priority for VAFI members. There remains a need for initiatives to ensure greater consistency in compliance with OH&S requirements through the provision of support for improved practices, including training, education and communication activities.

The government should engage NAFI and other relevant parties to develop protocols and a process to ensure effective legal protection and an indemnity for companies/owners and operators of equipment that are directed to be engaged in fire suppression activities.

³⁰ Sustainable Forests (Timber) Act 2004 (Section 80)



Government procurement policies and procedures including building codes

Government departments and agencies are significant users and specifiers of a wide range of plantation softwood and hardwood and native hardwood products, including: paper, packaging, structural framing, feature flooring, joinery, windows, doors, cabinetry and furniture. How the government regulates, or the directions it takes through departmental procurement policies and actions, has significant and direct impacts on markets and sends clear signals to the broader building industry and the investment sector.

However, the recent increased focus of concerns by consumers, regulators, specifiers and the broader community on environmental issues, particularly CO₂ emission reductions, has led to a proliferation of environmentally based regulations, procurement policies, specifications and rating tools which are currently quite adverse and restrictive to some timber products.

To protect and grow wood product markets into the future, government and industry will require a comprehensive strategy and action plan for future regulatory development that is targeted, consistent, coordinated, scientifically based and forward looking.

Victorian Government Procurement Policies

There is currently no collective and coordinated approach to government procurement and product specification in Victoria.

In the absence of a consistent government procurement framework a number of departments have developed and implemented their own product procurement policies, guides and specifications for new construction. A key past example of this was the Athletes Village for the 2006 Commonwealth Games, where changes in procurement advisories led to the prohibition of sustainably-produced Victorian hardwoods (only plantation timber was accepted).

The Building Policy Branch of the Department of Planning and Community Development (DPCD) and the Building Commission are currently reviewing regulation of public construction under the Project Development and Construction Management Act 1994.³¹ The review will determine the design of the optimal regulation system for the current and medium term. One consistent government procurement policy for all departments is desperately needed.

Government Accommodation Fit-Outs

The Government Services Group (GSG) within the Department of Treasury and Finance is responsible for all Victorian government office accommodation including new building fit-outs and existing building refurbishments. The GSG has produced the *Victorian Government Office Accommodation Guidelines 2007*.³² The Guidelines recognise materials with low embodied energy and a low environmental impact.

The guidelines however also state that a minimum five star Green Building Council of Australia GreenStar rating shall apply to all new office accommodation design, finished buildings and interiors for government tenancies:

The GreenStar requirement currently provides a significant impediment to timber's wider usage, as detailed below.

³¹ <http://www.buildingcommission.com.au/www/html/1736-what-is-the-building-commissions-role-in-public-construction.asp>

³² [http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/2007OfficeAccommodationGuidelines/\\$File/2007%20Office%20Accommodation%20Guidelines.pdf](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/2007OfficeAccommodationGuidelines/$File/2007%20Office%20Accommodation%20Guidelines.pdf)



GBCA's GreenStar Rating Tool

A number of assessment tools have been developed to assess the environmental performance of commercial buildings including operational energy impacts and their corresponding CO₂ emissions, water usage, indoor environment quality – ABGR and NABERS two govt tools, and 'GreenStar' developed by the Green Building Council of Australia (GBCA); a private membership organisation.

The GreenStar rating tool and its 'Sustainable Timber' credit (Mat-8) is of particular concern to the timber sector.

GreenStar's 'Sustainable Timber' specification under the 'materials' category awards two points if the timber used is either "*post-consumer reused or Forest Stewardship Council (FSC) certified*"; all timber used on the job must meet this criteria otherwise the points are voided. This specification is highly market restrictive in its exclusive approach to endorsing only one forest certification scheme and in practice virtually impossible to achieve due to the limited volumes of reused and FSC timber available.

The GBCA recently agreed to review its credit for sustainable timber and proposed an alternative specification which allows one (1) point to be awarded if 60%, or two (2) points if 95%, of the timber meets three of the specified sustainability criteria which in summary are:

- Evidence that the product has forest and chain of custody certification from a recognised forest certification scheme (such as FSC, AFS, PEFC, etc).
- Protection and maintenance of biodiversity and threatened species in native forests must be maintained.
- Plantation timber must not have come from a site which was converted from native forest after November 1994.
- Native timber must not have come from the logging of old-growth forest (*the definition of old-growth is still to be determined*).

Although the proposed specification makes the positive step of recognising AFS and PEFC, the approach sets sustainability criteria which Greenstar raters cannot practically assess and which are not objective, science-based. The criteria do not reflect the functional equivalence of the AFS/PEFC and FSC in ensuring all timber originates from a sustainably managed forest.

Our specific concerns about the proposed criteria are:

- It is not clear at what point the supply chain a chain of custody certificate would be required. The VAFI believes it should be the last point of transformation for a product.
- The biodiversity requirement would be impossible to Greenstar raters to assess.
- The impact of the criterion for old-growth depends on its definition.
- AFS, PEFC and FSC certification all provide a guarantee that timber originates for a sustainably managed forest – there should be no further specification of requirements.

The draft criteria have been subject to stakeholder consultation and are to be considered by a technical expert reference panel before a final draft specification is produced for public comment and finalisation.

It is critical for Victorian wood products, particularly native hardwood products, that the current GreenStar Sustainable Timber credit be amended to a more realistic and achievable requirement. Having the current restrictive approach of just recognising FSC, amended to recognition of all credible, internationally recognised third party certification schemes (including the FSC, PEFC and AFS) is a fundamental requirement that should be fully supported by government.



Ultimately, the aim should also be to have a full life cycle assessment (LCA) approach utilised by GreenStar and all other building rating tools, when assessing the impact of building materials (discussed further in section 3.3).

VicUrban's Eco-Selector

VicUrban is the Victorian Government's sustainable urban development agency. It is one of Victoria's largest residential land developers. A major focus of VicUrban projects is sustainability.

Eco-Selector is a materials procurement guide developed for VicUrban by RMIT's Centre for Design whose aim is to provide direction to builders and designers in the use of environmentally preferred materials. In regard to the use of timber products the current Eco-Selector guide provides the following 'Approved Timbers' list:-

- third party certified FSC or AFS,
- plantation softwood or hardwood,
- recycled,
- bamboo.

Eco-Selector, currently does not list any Victorian native hardwood products. The use of Victorian hardwood timbers were excluded from a major housing development (Aurora estate) prior to VicForests achieving AFS certification based on the 'biodiversity impact' of forestry in Victorian public native forests.

The bona-fides of AFCS certification (and its equivalence to FSC)³³, particularly in relation to 'biodiversity' must be recognised by all government departments.

Building Assemblies and Materials Scorecard (BAMS)

BAMS is an initiative currently underway funded by Sustainability Victoria through the Victorian Sustainability Fund, with supporting partners including the Green Building Council of Australia, VicUrban, Moreland City Council, Manningham City Council and RMIT University. The aim of BAMS is to develop a weighted indicator methodology based on a life cycle assessment (LCA) process for the Australian context, as well as a range of scored generic building assemblages for common applications, that can be used as early LCA design tools.

There has been little inclusion of the timber industry in the process to date and accordingly it is uncertain as to how timber will be treated. Use of an LCA approach for assessment should be positive for timber however this is dependant on a number of factors including whether the CO₂ sequestration of forests and the carbon storage properties of timber products are included and how native hardwood timbers, and biodiversity impact, are assessed under the more subjective 'weighting indicators'.

The Government needs to ensure that the projects it supports to assess the environmental qualities and impacts of production forestry and wood products have methodologies, techniques and measures that are rigorous, objective, transparent and fair. At present many of these assessments are lacking in credibility, integrity and transparency. It is crucial that all such schemes are analysed by Government, industry and community.

³³ Indufor Oy Finland (2002) "Benchmarking the Australian Forestry Standard", assessment report prepared for the Forest & Wood Products Research and Development Corporation, October 2002

Regulations and Building Codes

The peak national building body is the Australian Building Codes Board's (ABCB) who maintain and update the pre-eminent building regulatory document, the Building Code of Australia (BCA). In Victoria, the Building Commission³⁴ administers Victoria's building legislation system within the ABCB's national legislative framework.³⁵

The goal of the Building Code of Australia is to set nationally consistent, minimum necessary standards of health, safety (including structural safety and safety from fire), amenity and sustainability.

BCA: Structural Safety

In regards structural safety, timber framing products are specifically referenced and all construction is required to meet the requirements of the Australian Standard AS1684 – *Residential timber-framed construction*, either *Part 2 Non-cyclonic areas* or *Part 3 Cyclonic areas* (only Part 2 is used in Victoria).

It is critical that the timber industry in the future maintains AS1684 and provides a program of specific R&D to regularly update and improve this key timber construction standard.

BCA: Energy Efficiency

Energy efficiency regulations were introduced under the Building Code of Australia in 2003, their objective being to “*reduce greenhouse gas emissions*” (BCA: O2.6). Their focus however is currently limited to the ‘operational energy’ of homes and in ensuring a minimum “*level of thermal performance to facilitate the efficient use of energy for artificial heating and cooling*”. Buildings currently are required to either¹:

- have “an energy rating of not less than 5 Stars determined using a *thermal calculation method* that complies with the ABCB Protocol for House Energy Rating Software” (BCA: V2.6.2.1), or
- satisfy the Deemed-to-Satisfy Provisions of the BCA Part 3.12.

Energy regulations were first implemented by the Victoria government for new homes on 1 July 2004 with a twelve month transitional phase and then full 5 Star regulations from July 2005.

The introduction of energy regulations was a major issue for the Victorian timber industry as a typical brick veneer home with an enclosed raised timber sub-floor (approx 15% of the new home market) would only rate at around 4.0 stars under the CSIRO energy rating software engine, NatHERS, and the Sustainability Victoria (SV) software FirstRate4 (FR4) which was being used at the time. Research by the timber industry demonstrated that NatHERS was not accurately assessing raised lightweight sub-floors and as a result the timber industry was able to secure a ‘1 Star’ concession by the Victorian government in recognition of this fact. The government maintained the sub-floor concession until 31 August 2007 when Sustainability Victoria finally released its updated software FirstRate5 (FR5) which now utilises a more sophisticated CSIRO rating engine ‘AccuRate’.

However, raters have been slow to start using FR5. SV's own survey of raters in March 2008 reported that 93% of raters were still using FR4 (7 months after FR5's release). The industry has requested that SV provide a ‘corrective update patch for timber sub-floors’ to the FR4

³⁴ <http://www.buildingcommission.com.au/www/html/56-introduction.asp>

³⁵ It should be noted however that any provision of the BCA may be overridden by state legislation and therefore the BCA must be read in conjunction with state legislation.



software that it would raise it up to the state-of-the-art level of FR5. SV has committed to do so by the end of June 2008.

SV have been asked by VAFI and WPV to formally write to the Victorian Building Commission to request that FR4 (covered by the first generation software protocol) no longer be sanctioned for use beyond the current BCA recognition period (until 30 April 2009). This needs to be confirmed in writing to the Building Commission to allow the Commission staff to formally initiate the process of removal with the ABCB, well in advance of the October 2008 cut-off date.

Overall the current focus of national and state energy efficiency requirements as they stand continue to provide significant concerns for the timber industry. A national performance based approach to greenhouse gas emission reduction is needed. The objectives of energy efficiency regulations are clearly to “reduce greenhouse gas emissions”, particularly CO₂, therefore the BCA needs a broader more holistic performance requirement that allows other factors to be included in demonstrating reduced greenhouse gas emissions beyond just the current focus on ‘operational energy’.

A more holistic scheme should include recognition of:

- the embodied energy impact of the manufacture of construction materials,
- the total energy or greenhouse gas emission load of a house over its operational life,
- the reduced energy impact of directly reusing products or using recycled products, and
- the impact of site constraints.

This more holistic approach to demonstrating greenhouse gas emission reduction should be the aim of the Victorian government, who to this point has been a leader in energy based regulations.

Ultimately, a full life cycle assessment (LCA) approach is needed, as this provides the only fair, objective and scientifically based level playing field for building material assessment. This is very likely where the evolving BCA Sustainability requirement will eventually end up.
BCA: Sustainability

The ‘sustainability’ objective of the BCA is quite new and still under consideration. The ABCB has identified energy, water, materials and indoor environmental quality as issues to be considered³⁶ and the ABCB and the Department of the Environment and Water Resources (DE&WR) are investigating the development of additional initiatives that are the minimum necessary to achieve building sustainability objectives efficiently.

A three year project, which commenced in January 2008, is being undertaken as part of the Australian Life Cycle Inventory Database Initiative (AusLCI) which when completed will provide a publicly available repository for LCI data as well as preferred methods for utilising this data within Australian LCA studies. Depending on these results advice and direction will then be provided if necessary by DEWHA to the ABCB for input into national regulations.

The Australian wood products sector is well placed in this process. First, a major life cycle inventory data collection project which has now been running for two years, funded by Forest & Wood Products Australia (FWPA), is due to be completed by CSIRO in May 2008. This project will provide state-of-the-art LCI data for a wide range of Australian timber products and processes.

³⁶ <http://www.abcb.gov.au/go/whatweredoing/workprogram/projectsae/sustainability>



Second, FWPA is a partner in a nationally funded grant through AusIndustry to assist in development the building and construction component of the AusLCI database. The timber LCI data will be the first detailed sector based information included in the new AusLCI database, and will become the exemplar for other sectors.

The ultimate aim is to develop a fully populated national LCI database and an agreed LCA protocol for building construction which then provides the common materials assessment process for all environmental regulations, rating tools, specifications, procurement documents and company product claims.

The Victorian government should endorse, support and lead the way in the take up of LCA within government sustainability regulations and environmentally based procurement policies and specifications. A targeted, consistent, coordinated, scientifically based and forward looking strategy such as this provides the best opportunity to protect and grow wood product markets into the future.

Victorian Government Policy and Regulation Development

As has been highlighted, it is imperative that timber industry representatives participate on relevant governmental committees charged with the development and implementation of policy and regulation as it relates to timber and wood products. The Victorian government's implementation of energy efficiency and sustainability measures has had, and will have, a negative impact on timber and wood products due to being too narrowly focussed; the timber industry should have been pro-actively consulted by government on this up-front, as opposed to not fighting for market protection after the event. The involvement of the timber industry representatives in the early development of future government regulations can only be positive in encouraging and supporting the increased use of the most environmentally friendly material - wood.

VAFI recommendation

The Victorian Government needs to recognise and promote that Victorian native hardwood and plantation timber, sustainably harvested and re-grown, is environmentally and greenhouse friendly.

- The Government needs to ensure that the projects it supports to assess the environmental qualities and impacts of production forestry and wood products have methodologies, techniques and measures that are rigorous, objective, transparent and fair. At present many of these assessments are lacking in credibility, integrity and transparency. It is crucial that all such schemes are analysed by Government, industry and the community.
- The credentials of AFS certification (and its equivalence to FSC), particularly in relation to 'biodiversity' must be recognised by all government departments.
- It is critical for Victorian wood products, that the current GreenStar Sustainable Timber credit be amended to a more realistic and achievable requirement. The recognition of all credible, internationally-recognised third party certification schemes (PEFC, AFS and FSC) should be fully supported and endorsed by government. A full life cycle assessment approach should be the ultimate aim for assessment of building materials.
- It is critical that the timber industry in the future maintains AS1684 and provides a program of specific R&D to regularly update and improve this key timber construction standard.
- A more holistic approach to demonstrating greenhouse gas emission reduction should be the aim of the Victorian Government, who to this point has been a leader in energy based regulations.
- The Victorian Government should endorse, support and lead the way in the take up of LCA within government sustainability regulations and environmentally based procurements policies and specifications. A targeted, consistent, coordinated, scientifically based and forward looking strategy such as this provides the best opportunity to protect and grow wood product markets into the future.



Training and skills development

The Victorian forestry and forest products industry directly employs about 25,000 people. A significant proportion of these jobs are located in regional areas included Gippsland, North Eastern Victoria, the Central Highlands and the South West.

The forestry and forest products industry highly values training and skills development. Our industry faces a significant skills shortage and a challenge in attracting school leavers to take up careers in the industry.

Like many primary production industries, the forestry and forest products industry across Australia faces a significant skills shortage which is a risk for the future development of the industry, including harvesting of and product supply from the areas of hardwood pulp plantations coming online now.

There is a shortage of workers with industry specific expertise such as foresters, wood machinists, harvest operators, forest workers and saw doctors; and workers with generic skills required by the forest industry such as electricians, fitters, managers and truck drivers.

There is a need to both attract new skilled workers to the industry and to continually develop the skills of existing workers, in an industry which is increasing reliant on new technologies.

The forestry and forest products industry competes for new entrants against alternative vocations which are relatively highly salaried, have well recognised career prospects and are less physically challenging.

The public image of forestry is recognised as a barrier to attracting new school leavers and workers. The industry has a role in providing schools and school leavers with information about forestry and career prospects. However, there is a need for the Victorian Government and the industry to cooperate in enhancing the public understanding of sustainable forest management and the benefits of forestry and use of wood products. The VAFI believes a Government-funded advertising campaign to promote careers in the industry such as the one for manufacturing would be an effective way to address this problem.

There is a need to support the development of and recognition of schools of excellence, which can be encouraged to support further research and attract school leavers.

There is also a need to improve professional development within the forestry sector to enable companies, particularly hardwood processors, to move higher up the value chain and take advantage of emerging markets in the carbon and biofuel sectors. The industry requires workers of an increasing technical and specialist skill set.

The forest industry values highly workplace training and skills development; approximately 20 percent of the industry is undergoes some form of structured skills development each year. Government partnerships with industry and training providers to improve the availability and effectiveness of workplace training could provide valuable outcomes for the industry.

The industry welcomes the opportunity to participate in programs to establish partnerships with academic and training institutions, including for related sectors. In particular, there is a need to form partnerships between forestry and forest products specialisations and building and design specialisations to support joint research and the sharing of information for course content.



The industry supports the development of 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.

The industry supports the development of a Victorian indigenous forestry employment strategy as recommended in the STIC report and would be a willing participant in its development.

VAFI recommendation

There is a significant skills shortage in the Victorian forestry industry. There is a need to promote careers in the forestry industry to school leavers; to improve the effectiveness, availability of workplace training and to direct funding to building schools of excellence and enhancing training programs in new technologies and practices. The industry is committed to being proactive and to partnering with the Victorian Government and training providers to address training and skills development.

- A Government-funded advertising campaign to promote careers in the industry such as the one for manufacturing would be an effective addition to existing industry initiatives to attract new people to the industry.
- Government partnerships with industry and training providers to improve the availability and effectiveness of workplace training could provide valuable outcomes for the industry.
- There is a need to form partnerships across specialisations and support schools of excellence which can lead in research areas and attract school leavers and graduates.
- The industry supports the development of 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.

The industry supports the development of a Victorian indigenous forestry employment strategy.



Research and development

Research and development (R&D) is important to facilitate the use of new technologies and practices, guide investment and inform industry and the public about forestry in Victoria.

R&D is delivered by universities, the CSIRO, the CRC for Forestry, the CRC for Wood Innovation and Forest and Wood Products Australia (FWPA), formerly the Forest and Wood Products Research and Development Corporation (FWPRDC). In addition, private enterprises and industry bodies such as VAFI commission research as practicable.

The forest industry values highly and supports R&D. The FWPA is funded by industry levies and matched Commonwealth Government funding. The restructure has allowed the body's responsibilities to be broadened to include marketing and promotion of wood products.

There is a role for government to facilitate strategic research as a public good which can support the development and public understanding of the forestry and forest products industry.

The industry welcomes initiatives by government to commission and make public important research, support research institutions to carry out their own research programs and collaborate with industry to further technical innovation, improve practices and undertake educational activities.

There are several areas requiring government support as a priority.

Forest management

Ongoing R&D is required to better understand forest ecosystems, improve forest management techniques and to improve the productivity of forest resources. The CRC for Forestry has undertaken important work in the areas of harvesting practices, silviculture and tree genetics. There is a need to support this research and to support further research in the areas of carbon storage in native forests and plantations and the impacts of climate change on forests and opportunities for adaptation.

Development of hardwood sawlog plantations and private native forest resources

There is a role for the Victorian Government in facilitating the development of private native forest resources. This includes the preparation of an inventory of productive, private native forests.

It also includes the identification of areas suitable for plantation development, research on the environmental impacts of plantations and further development of markets to value environmental services provided by plantations.

New technologies and services

There are opportunities for the forestry and forest products industry to develop new and complementary products and services including bioenergy and environmental services.

There is a need for additional research and development of technologies to enable the development these markets. In particular, there is a need for firm level case studies and analysis of the suitability and commercial viability of different technologies and products for different sectors of the industry.



Socio-economic research

There is a lack of data on the socio-economic impacts of the forestry and forest products industry in Victoria, particularly regional level data. This information is important for informing policies for regional development, growth of the forest industry and improving public understanding of the role of the forestry and forest products industry in regional Victoria.

The VAFI and others in the industry have commissioned a number of socio-economic studies. However, a comprehensive study including the latest socio-economic modelling is required.

URS Forestry suggests research into the mechanisms by which the industry contributes to social wellbeing in regional communities and the indirect income and employment effects of the industry is required to illustrate the benefits of the industry to regional communities and the State.³⁷

A separate stream of socio-economic research is required focusing on the community's use of wood products, how they value them, their understanding of the benefits and impacts of the forestry and forest products industry in Victoria and the factors which influence their understanding. Based on this research, the Government and industry can jointly develop a strategy to better inform all levels of government and the community about forestry in Victoria.

Wood products in the marketplace

There is a need for further research to inform building codes, building rating schemes and procurement policies on the life-cycle impacts of materials, including wood products.

Audit of forest and timber research

The VAFI supports the recommendation of the STIC that a joint Government/industry sponsored audit of forest and timber research in Victoria is required, to ensure that programs and funding are properly aligned with the Government's objectives for the sector (as articulated in the TIS) and the sector's commercial needs.

There is a need to also consider how the results of research and development are communicated and adopted and to facilitate pathways for the implementation of the results of research and development.

VAFI recommendation

There is a role for government to facilitate strategic research as a public good which can support the development and public understanding of the forestry and forest products industry. Areas requiring government support as a priority include:

- Forest management including carbon storage of native forests and plantations and the impacts of climate change;
- The preparation of an inventory of productive, private native forests.
- It also includes the identification of areas suitable for plantation development, research on the environmental impacts of plantations and further development of markets to value environmental services provided by plantations.
- Additional research and development of technologies to enable the development markets for bioenergy, carbon sequestration and environmental services. In particular, there is a need for firm level case studies and analysis of the suitability and commercial viability of different technologies and products for different sectors of the industry.
- Research on the socio-economic impacts of the forestry and forest products industry in

³⁷ URS Forestry (2007)



Victoria, particularly regional level data.

- A separate stream of socio-economic research is required focusing on the community's use of wood products, how they value them, their understanding of the benefits and impacts of the forestry and forest products industry in Victoria and the factors which influence their understanding.

The VAFI supports the recommendation of the STIC that a joint government/industry sponsored audit of forest and timber research in Victoria is required, to ensure that programs and funding are properly aligned with the Government's objectives for the sector (as articulated in the TIS) and the sector's commercial needs.

- There is a need to also consider how the results of research and development are communicated and adopted and to facilitate pathways for the implementation of the results of research and development.



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