

# TRANSCRIPT

## STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

### **Inquiry into VicForests operations**

Melbourne — 30 May 2017

#### Members

Mr Bernie Finn — Chair

Mr Khalil Eideh — Deputy Chair

Mr Jeff Bourman

Mr Nazih Elasmr

Ms Colleen Hartland

Mr Shaun Leane

Mr Craig Ondarchie

Mr Luke O'Sullivan

#### Participating members

Mr Greg Barber

Ms Samantha Dunn

Mr Cesar Melhem

Mr Gordon Rich-Phillips

#### Witnesses

Mr Nathan Trushell, Acting Chief Executive Officer, and

Mr Lachlan Spencer, Acting General Manager, Stakeholders and Planning, VicForests.

**The CHAIR** — Gentlemen, the committee is hearing evidence today in relation to the inquiry into VicForests operations, and the evidence is being recorded.

Welcome to the public hearings of the economy and infrastructure committee. All evidence taken at this hearing is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you go outside and repeat the same things, those comments may not be protected by this privilege.

Could I ask you to state your name, your company or organisation, the position you hold and the suburb in which that is based and then speak for 5 or 10 minutes, and we will get into questions after that.

**Mr TRUSHELL** — Thank you. Nathan Trushell, acting CEO of VicForests, based in Melbourne.

**Mr SPENCER** — Lachlan Spencer, acting general manager of stakeholders and planning, VicForests, Melbourne.

**Mr TRUSHELL** — Chair, in my presentation I have a handout. By way of introduction, we provided a submission yesterday.

**The CHAIR** — Yes, we have that.

**Mr TRUSHELL** — I really wish to open just to introduce VicForests and provide a little bit of context about what we do and who we are. We are a state-owned corporation with an independent board that is accountable to the Treasurer, as our shareholder, and the responsible minister, the Minister for Agriculture. Our activities are also regulated by the Department of Environment, Land, Water and Planning. Our primary purpose is that we are responsible for the sustainable harvest and commercial sale of timber from state forests in Victoria. We are required to operate sustainably and commercially prudently and to consider long-term economic returns to the state, as outlined in our order in council, and of course we are responsible for regenerating areas that we harvest.

VicForests' core business is around determining the quantity, quality and location of timber that can be sustainably harvested. We allocate this timber by using competitive timber allocation processes, and of course we plan our harvesting activities and develop timber delivery schedules. Our primary means of delivering that is through the engagement of forest contracting businesses to harvest timber and also to haul timber to mills. As I have said, we also engage contractors to assist with regeneration activities. We are Australia's largest supplier of high-quality hardwood natural timber. Our turnover in 2015–16 was around about \$112 million.

We engage 110 to 120 staff within VicForests but also an additional 400-odd staff through our contracting activities, primarily around harvest, haulage, regeneration activities and road maintenance and construction activities. Virtually all of these contractors are family-based businesses throughout regional Victoria, and we supply a raft of processing businesses throughout Victoria. The vast bulk of the material that we deliver is processed domestically within Victoria. We are also an important contributor to the state's forest firefighting effort.

I guess, why do we do it? It is really around demand for timber. It is a domestic industry. It is a high-value industry, one that generates renewable, attractive timbers for a range of applications: high end, construction, pallets and of course pulp and paper. We work in a complex legislative framework and regulatory framework, as I said, which is largely administered through the Department of Environment, Land, Water and Planning. The slide provided intends to give an overview of the complexity of that framework and the structure of VicForests' response to that system.

Timber supply modelling I know is a key area of interest for the inquiry. We have provided some more information in our submission, but I do want to identify that it is a highly complex task. We have a highly variable and fragmented resource spread across a very large area of forest. It involves the use of an enormous amount of data and complex modelling processes. We do test and undertake a range of scenarios and analyse and test those scenarios with a view of ultimately optimising timber availability, sales and supply commitments in consideration of economics and sustainability.

For our timber allocation and sales processes, we use a range of processes — more broadly and more recently over recent years through competitive requests for proposals — which enable proponents to qualify in those processes first and foremost and then provide proposals, including types of investments they might make.

Obviously price is still an important factor. The allocation process aims to be open, competitive and fair, and it aims to allocate all the products from the harvesting operations that we undertake. Timber is sold in advance to harvest, so we are always undertaking a risk-based approach. Ultimately we do not want to allocate and sell what we are unable to deliver.

Regarding harvest planning, we work on long-rotation forest. Typically a 60 to 120-year rotation is the rotation cycle. All our areas prior to harvest are assessed for a range of values, and detailed coupe plans are prepared. We consider a range of factors to protect values — for example, streams, wildlife habitat, steep slopes. Harvesting is undertaken, and we identify physical features in the field that are identified on a coupe plan. The majority of harvesting is now done mechanically. It involves a substantial amount of investment from family-based contractors that we employ. That is primarily to increase safety within the forest but also obviously efficiency in what is a globally competitive industry. Our competitive advantage is the high-quality sawlogs and material that we produce; however, each operation produces a range of products, and any operation will deliver timber to a range of customers.

I provide the next slide, a diagram. It is really a schematic to identify that any individual tree will produce a range of products. That is fundamentally what we do: we attempt to disaggregate those trees into various timber products, trying to maximise value and quality of material.

Regeneration is done using locally picked seed to ensure we regrow the same species that were on the site before harvest. Regeneration burns aim to imitate natural generation processes, and we typically spread seeds through an annual regeneration program post burn.

Regarding economic contribution, VicForests was established in 2004. We have sold more than \$1.1 billion worth of timber. Over \$900 million of that has been paid out to regional contracting businesses, a significant injection into the regional economies of Victoria, more than \$100 million in staff wages, and we have generated well in excess of \$4 billion of economic activity, predominantly in regional Victoria.

I include some quotes from the Victorian Auditor-General review of our activities in 2013. It says:

VicForests has demonstrated that it balances the need to operate profitably with the need to support industry and socio-economic sustainability.

That is just a bit of background to my presentation.

**The CHAIR** — Thank you very much indeed. I will open it to questions and start off with one or two of my own. We have heard today that the forest industry in Victoria has been going through a decline for quite some time. What role has VicForests had in that, if any?

**Mr TRUSHELL** — We have had a significant role in it, given our role in determining the quantity of timber available to industry and forecasting sustainable yields. That has been in decline, not just over recent years but over some period of time. That has been a difficult process to manage — one that we take seriously — and generally when we do, we try to manage that in transition. But having said that, we have still a strong industry and one that we support.

**The CHAIR** — We have heard today that the industry in fact is threatened with almost entire closure, from the way I took it. Is there some agenda on behalf of the VicForests board to send Victoria down the same path as Tasmania and lock everything up?

**Mr TRUSHELL** — Absolutely not. The board in VicForests is very supportive of the industry. We will work within the resource that is allocated to us and the regulations that we have to operate under. We are required to do that by law, as well as we have responsibilities under external sustainability frameworks we operate under too, so absolutely not. That is not our mission. Our mission is to support an industry.

There are certainly challenges with the Heyfield mill. We are very cognisant of that, and that is a position that we wish we were not in. Having said that, that mill represents typically around about 10 per cent of our total supply. We still have a significant industry just beyond Heyfield.

**Mr LEANE** — We had previous witnesses today stating that supply of timber to mills was down. The reasons given were 30 per cent bushfire and 70 per cent the Leadbeater's possum coupes that are put aside. Would you agree with that?

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

**Mr LEANE** — I suppose the supplies of timber, particularly ash, are an aspirational quantity. Would VicForests be able to supply it — and this is not me, this is just a hypothetical because I do not actually believe it — if you said, 'Forget the possum'?

**Ms DUNN** — Shame on you, Mr Leane. I know it is hypothetical.

**Mr LEANE** — Could those aspirations be reached if that was the case anyway?

**Mr TRUSHELL** — If you were to remove any of the additional protection measures that have been applied over the last couple of years and we removed any consideration of protection measures for the future, our assessment would be broadly speaking that around about 60 000 cubic metres are attributable to that.

**Mr LEANE** — Right. So it is only 60?

**Mr TRUSHELL** — That is right. Per annum.

**Mr BOURMAN** — That was an extra 60, was it?

**Mr TRUSHELL** — Yes, and then the remaining 30 is due to other factors.

**Ms DUNN** — Did you say 60 000 hectares is attributable to 50 per cent — —

**Mr TRUSHELL** — No, 60 000 cubic metres. It is a 90 000 cubic metres per annum reduction that we have recently modelled, and around about two-thirds of that is attributable in our forecasts to the Leadbeater's possum.

**Mr LEANE** — So to be able to get a certain organisation or a mill over a hump, can VicForests front load a contract so that over a 10-year contract you can have more volume in the first four years and less in the last six?

**Mr TRUSHELL** — The situation, and that was our initial position, effectively left uncommitted, based on our projected volume, 60 000 cubic metres available for the Heyfield mill down from their 150 000-odd per annum. We had initially forward loaded that to 80 000, and we are in consideration of that. Having said that, anything we do forward load increases the risk, I guess, of not being able to supply the rest of the industry further down the track. Our view is, yes, we should manage some form of transition to new levels, but we should not do that at the expense of the broader industry, or sustainability for that matter.

**Mr LEANE** — I suppose in VicForests' experience and expertise is a question around how transparent plant and equipment from mill to mill is, or is it an expensive exercise to move equipment interstate to Tasmania?

**Mr TRUSHELL** — We are forest managers. We do not claim to be experts in sawmilling, and that is what we leave to our customers. But certainly we have seen all of our other ash customers operate on far less volumes than we are offering to ASH, so certainly there are viable business models processing smaller volumes of ash. How that particular mill, its particular configuration, can adapt is still a question mark. It is something we are trying to understand. To be quite frank, we are hoping there is a pathway through for the mill.

**Mr LEANE** — How many ash customers do you have?

**Mr TRUSHELL** — We have about another five.

**Mr LEANE** — Another five across the state?

**Mr TRUSHELL** — Yes, around the Central Highlands. I think that is right. It is around about that. Five traditional sawmills.

**Ms DUNN** — I will stop doing that calculation now. Thank you, gentlemen, for your submission this afternoon. I first want to just pick up some evidence you provided to Mr Leane about 60 000 cubic metres per annum of forest that is, as you expressed, lost as a resource to be logged. I am just trying to understand and unpack where that figure comes from. The reason I ask that is at the moment we see there are 2983 hectares that have been set aside for sightings of Leadbeater's already, as buffer zones. Is the expectation that you are actually going to find thousands of Leadbeater's possums? Because I cannot equate in my mind the reality of what is happening out there with a species in decline and an incredible escalation of forest that needs to be protected because of this species that is actually critically endangered and in decline. So how does that come to be?

**Mr TRUSHELL** — Your question, just to clarify, is around how we calculate the volume — —

**Ms DUNN** — The 60 000.

**Mr TRUSHELL** — Yes. So we have broken that down into specific volume impacts. I mean, we harvest around about 1000 hectares of ash per annum, so just at the highest level 3000 hectares of forest is the equivalent of three years of forest area that we would harvest.

**Ms DUNN** — Is it also equivalent of about 1.2 per cent of the total ash forest area?

**Mr TRUSHELL** — Yes, there is a significant area of ash forest, but — —

**Ms DUNN** — Yes. So it is a very small proportion of the entire ash forest that is charged with VicForests' responsibility.

**Mr TRUSHELL** — Yes, that is right, recognising that the area that is merchantable and available within that area is small, relative to the larger area, and that by nature the impact of three large fires throughout the 2000s, in 2003, 2006, 2007 and then in 2009, the area of merchantable forest is much less. It is a significant component of the area available for the industry over the next 20 years.

**Ms DUNN** — It is my understanding that you have 241 000 hectares available to you, that is allocated to VicForests. Is that correct?

**Mr TRUSHELL** — In total for ash forest?

**Ms DUNN** — Yes.

**Mr TRUSHELL** — I would have to take that on notice. I do not know the precise area.

**Ms DUNN** — What I am trying to get to is, if that is the allocation to you and you are talking about merchantable forest out of that, how does that then translate? Because of course there is an interrelationship between you having a whole forest available, you being able to only merchant so much, there being a possum and how it all plays and fits together. Sixty thousand cubic metres seems a lot in that.

**Mr TRUSHELL** — Yes, and it is. Yes, certainly.

**Mr SPENCER** — I think the challenge with the ash forests is that they have a large spike in 1939 ash.

**Ms DUNN** — Yes, because of the fires.

**Mr SPENCER** — Normal forest would be distributed across age classes. There is a particular age class which we are operating in at the moment. Once that is finished we need to wait until the age classes from the 70s, 80s and 90s grow so it is suitable. We come within that portion. When we say suitable and available, that is suitable being broadly 1939, give or take, and available being the areas that are not within national park or within reserve. Within the 12-hectare islands that we talk of for the possum, on average it is about 2.8 hectares of each circle that is 1939 available ash. There is also an additive that is the area that is directly impacted by the colony protection zone, though if you have a number of colony protection zones next to each other, as you

cannot road through them, other areas adjacent, whilst not technically reserved, now become inaccessible, so there is a flow-on effect of impact through to those.

Therefore the modelling process we have done and the assumption, and coming back to your initial question of how many possum zones do we anticipate, there are a number of zones that have been created to date due to colonies that have been located, and we have projected in our resource outlook that for each of the next seven years another 125 colonies will be located. Some of those have already been located because the modelling originates from 2015. We say that that is an estimate based on the current detection rates and it is an assumption, and we would freely admit that there are other assumptions that could be made, but that totals 875 colony protection zones affecting state forest, and when taking that into account, the additive impact of those, plus associated forest which those now block access to, leads to a reduction in availability per annum of 60 000 cubes.

**Ms DUNN** — Does that relate to slide 12, which is part of your resource outlook that was produced in February 2017 that indicates — and I am happy to table a copy for the committee records if they do not have one; it is not a document that has been provided to us as part of the VicForests presentation, but it is an important slide — that there is a forecast reduction of 43 000 cubic metres per annum of ash D sawlog wood flows? It is this slide here. I am sure you are probably familiar with it. What I am trying to understand in this slide is essentially there is a calculation that talks about a loss of 2 per cent per annum for seven years equalling a certain portion of wood. The table goes on to talk about other reductions, some of them modelled over 15 years. I am just wondering how you can get a total that equates to seven years of reduction and 15 years of reduction, and then that turns into one year of reduction. I do not understand the maths behind that.

**Mr SPENCER** — If we look at the top line of this table, it talks of 2 per cent per year for seven years. The 2 per cent equates to the 125 colonies that we have projected, based on the current detection rate, being detected each year for seven years. The impact of those 125 is 2 per cent, and therefore it is a cumulative impact over seven years of 14 per cent of the available and suitable ash within the Central Highlands, which equates to 18 000 cubic metres per year. Fourteen per cent of the available and suitable ash would be impacted. Prior to that impact we had projected that 132 000 cubic metres within the Central Highlands per annum was what we would produce. Given 14 per cent of the forest which we would have operated in is now not available, there would be a reduction of that per annum value of 18 000, and the cumulative of those is 43 000, which contributes to the 60 000.

**Ms DUNN** — Can we just stick with that 2 per cent per annum for seven years, because isn't 2 per cent of 132 000 a much lower figure than 2640?

**Mr SPENCER** — It is, but it is 2 per cent per annum. The projection is that over seven years we will find — —

**Ms DUNN** — No, no; stick with me. We will go a step at a time. One year's loss is 2640 in this particular instance.

**Mr SPENCER** — If the assumption was that only 125 more colonies were discovered and then no more were discovered, yes, the loss would be 2 per cent.

**Ms DUNN** — It would be 2 per cent of 132 000 every year, and that — —

**Mr SPENCER** — Yes, if that is all the colonies that were discovered.

**Ms DUNN** — That is right. So that would mean it is 2640 cubic metres per annum forecast reduction on that particular line item?

**Mr SPENCER** — If no more possums than 125 were identified.

**Ms DUNN** — That is right. Yes, according to what this table said. So if you continue that logic down this table and extended that maths out to all of those projections, the actual figure is 5478 cubic metres per annum lost, which over the time scales in the table equates to that 43 000. Forty-three thousand is not a per annum calculation, is it?

**Mr SPENCER** — That is not correct. The figures you have presented are based on a different set of assumptions of how many new colonies or how much other forest would be reserved.

**Ms DUNN** — I am just using your table and trying to work out the maths.

**Mr SPENCER** — I understand your interpretation of the table, and the table could possibly be better annotated. However, the interpretation we are using is that only 125 new colonies will be discovered going forward over the next 20 years. Our assumption over the next 20 years is that that number will be discovered each year for the next seven, and then our assumption is no more would be discovered. It is a modelling assumption.

**Ms DUNN** — And your assumption is that it is a 2 per cent reduction of 132 000 cubes per annum.

**Mr SPENCER** — No, that is not correct. Our assumption is that — —

**Ms DUNN** — I am sorry, I thought that is what you just said.

**Mr SPENCER** — I can explain again. We are assuming that 2 per cent of the available and suitable 1939 ash within the Central Highlands will be removed and excluded from availability each year, so cumulative: 2 per cent in the first year, an additional 2 per cent in the second, adding to 4 per cent. So over seven years 14 per cent of the suitable and available ash forest in the Central Highlands would no longer be available. Therefore the volume we can produce would be 14 per cent less.

**Ms DUNN** — It is 2 per cent in year 1, 4 per cent in year 2, 6 per cent in year 3. Is that what you are saying?

**Mr SPENCER** — Just take a step back. When we do our resource outlook it is over a length of time and we are considering how much area will be available to harvest. What this table is trying to present is what area will be available to harvest and that, if 2 per cent is being eroded each year, the area that is available to be harvested over the life of the projection will be the cumulative less.

**Ms DUNN** — I am going to ask a question about your submission because I am not getting anywhere with that.

**Mr TRUSHELL** — Can I just add one thing, please, just to clarify, that particular document does not form part of our official resource outlook. It was used for some early briefings we did. We have not released a resource outlook. We do in the very near future expect to do that. We recognise that that table is a little bit clumsy and could be explained better. What we do plan to do is produce two tables of the current, I guess, impacts, so the historic to today and the forward projections based on volume. And we have had that work scrutinised both through some internal processes — we have engaged an independent expert — and we have also, obviously, been reviewed by two other groups over the last six months. So this work has been looked at three times. Overwhelmingly the response to that is our assumptions are fair and reasonable given the circumstances that we face.

**Ms DUNN** — So your reworked resource outlook is going to contain exactly that same figure?

**Mr TRUSHELL** — It will be in volume terms just to make it a little bit simpler and clearer for people.

**Ms DUNN** — And will you be providing updated data to VEAC? Because you provided them with this data as part of their fibre — —

**Mr TRUSHELL** — They looked in more detail than just that table, and they worked very — —

**Ms DUNN** — Yes, I know. But will you be providing them with updated assumptions?

**Mr TRUSHELL** — No, we have not been asked. We are not updating our submissions. Nothing changes; the impact is entirely the same. If we have not made it clear or if that table is confusing, we apologise — that has not been our intent — but the quantum of the impact based on our assumptions will not change.

**Ms DUNN** — I just wanted to go to your submission, where you talk at 2.4 about VicForests' resource modelling process. In there you have excerpts from the Victorian Environmental Assessment Council's *Fibre*

*and Wood Supply: Assessment Report* from 2017. I am just wondering: are these VicForests' words that were originally supplied to VEAC? That is my first question around this.

**Mr SPENCER** — No.

**Ms DUNN** — And why haven't you chosen to use your own words in 2.4 as part of explaining your operations?

**Mr SPENCER** — We have chosen to use VEAC's words as they are an independent verifier and at times the credibility of VicForests' presentation was questioned. We thought that that would provide a clearer and more verifiable presentation to the committee.

**Ms DUNN** — Can I ask then why you have used the same set of words further down on page 20 that seem to imply they are your words?

**Mr TRUSHELL** — It is our view. We share the view.

**Ms DUNN** — And your view used exactly the same wording as VEAC's?

**Mr TRUSHELL** — We have had two other groups come up with broadly the same conclusion — two other independent experts.

**Ms DUNN** — Using exactly the same words.

**Mr TRUSHELL** — No, essentially verifying that our approach is reasonable and it is robust, and from our perspective we believe that. We have now had it scrutinised by three different processes over the last six months, which have all broadly agreed.

**Mr SPENCER** — I also note the time line in preparing our submission was tight. The words have flowed over the referencing in that section. It should reflect that it is VEAC's words, and I guess we would apologise for that. There is not an intent. That was our view of responding to the terms of reference. That could be an omission from us.

**Ms DUNN** — In terms of looking into VicForests' performance, there was a study completed by URS in 2010. It looked at the predicted volume estimates versus the actual volume estimates of VicForests and in every single instance found a variance in relation to that. I am happy to table this document as part of this inquiry. I will do that via soft copy because it is too hard via hard copy. That particular assessment of VicForests' performance highlighted some significant concerns around the lack of accuracy in relation to your coupe volume estimates and your actual harvest volumes. I am just wondering: have you since that time taken any corrective action in terms of getting greater accuracy in relation to your predictions versus your actual harvests?

**Mr SPENCER** — I note that that report is some seven years old and that VicForests has evolved its processes over that time. There is always a challenge in the actual volume versus predicted volume for things like new regulation, new prescriptions underlying, so there is a challenge that we continue to meet. I think also that if I draw your attention to page 27 of the VEAC report, it talks about scaling factors, which are methods within our modelling that address adjustments for actual versus predicted, and it recognises that there are challenges and that is an incorporation with our model that we have done over time. Yes, we have spent a lot of effort in focusing on the net area that we can harvest in each coupe, which was one of the biggest contributors at the time, and that those factors have improved over time.

**Ms DUNN** — I will go to item 2.5, but then I might let someone else have a go after that.

**The CHAIR** — Yes, that would be a very good idea.

**Ms DUNN** — Sorry, I just got a bit stuck on the Leadbeater's possum, Chair. You know how it goes: it happens in the chamber too.

**The CHAIR** — Yes, I do, unfortunately.

**Ms DUNN** — In relation to item 2.5 — that is page 6 — it talks about your timber allocation and sales process, and at the end of that it talks about VicForests having sold low-grade logs that were surplus to domestic

requirements to customers who exported those logs unprocessed. I have a couple of questions in relation to that statement. The first is: were those logs offered locally? I have some photos that were provided to me of C-plus grade logs in the Australian wood export yard that were for the purposes of the Big Traffic export. So my question is: given that, were they ever offered locally? Ash of course is the obvious choice in relation to if they were offered those. My other issue is that it is my understanding that Big Traffic only sell high-grade timber, so how does that accord with those low-grade logs that are surplus to requirements — there seems to be an inconsistency there — and what volumes and grades have in fact been exported under Big Traffic, or Orient Express for that matter?

**Mr TRUSHELL** — There are several questions there.

**Ms DUNN** — Yes, I cannot help myself.

**Mr TRUSHELL** — I will try to tackle the first one. Yes, we did offer surplus volume through an expression of interest process. It was not taken up domestically. I will take on notice the allegations around C-grade logs. That has not been presented to me.

**Ms DUNN** — Yes, and I am happy to provide you with that photo.

**Mr TRUSHELL** — They are E-grade logs that are contracted. It has been a relatively short-term sale as a result of some surplus volume. Our position has always been that we will offer it to the domestic market in the first instance, and going forward with reduced harvest levels and our plans we do not anticipate any surplus ash going into the log export market. We will have a significant challenge in meeting our existing low-grade, E-grade and pulp log contracts, and that will be our focus over the next few years.

**Ms DUNN** — So we will see that export. I guess because of the constraints on resource availability that is not going to happen in the future?

**Mr TRUSHELL** — Yes, that is for ash logs.

**Mr SPENCER** — I would also note that, as presented in our submission, grading ash sawlogs is a complicated task, and some of the defects are very small and difficult to pick up. From a photo of a log truck there is no way you could assess whether those logs were of sawlog quality or of pulp quality.

**Ms DUNN** — I thank you for that. It is probably worth looking at the quality of timber on there and providing more commentary in relation to that. And on the volumes and grades, you said E-grade — the volumes, sorry —

**Mr TRUSHELL** — Sorry, could I just take that on notice? I do not have that on hand.

**Ms DUNN** — Yes, sure.

**Mr O'SULLIVAN** — I just want to ask a couple of questions going back to the mechanics. It is around the modelling and the Leadbeater's possum, I guess, because it seems that the Leadbeater's possum is dictating the policy framework around the supply of timber for the whole state, or certainly in the Central Highlands area. In terms of the modelling that has been undertaken, what is the background? Where did that modelling or the concept of that modelling occur? Was there a trigger point that started that modelling process? Where did it come from?

**Mr TRUSHELL** — Just by way of background, I think in 2013 the Leadbeater's Possum Advisory Group was established. There were a number of agencies that were involved in developing a suite of recommendations to assist in the conservation of the Leadbeater's possum, and the outcome of that was a number of changes to our practices — some agreed changes in definitions around some of the existing protections for habitat and of course the introduction of protection of detection sites with a 12-hectare buffer, or roughly a 200-metre exclusion zone. At that point in time the thinking was that 200 colonies would be protected and then there would be a review.

It is probably fair to say the rate of detections has been much faster than we and probably a range of other people certainly anticipated at the time. I guess what then precipitated us considering that in terms of forward planning was that we were coming to the end of the existing contract with Australian Sustainable Hardwoods.

Their contract expires on 30 June this year. I guess there were a number of other factors in play, but last year, given that there had not been any change around regulation, we had to act commercially prudently to ensure that we do not over allocate supply, given existing and other contracts with industry, so we felt it important to take into account what the ongoing impacts of the possums might be.

**Mr O'SULLIVAN** — I do want to talk about the review, but we will come back to that. In terms of the reduction in timber that is available for ASH, we have learned here today that the contract was signed between VicForests and the Hermal Group or ASH for about 150 000 cubic metres out until 2034. We have learned that in just a few short years — three years later — that number has come down to 80 000 and then drops to 60 000, 60 000, but I understand that that has been upped to 80 000, 80 000, 80 000 for three years and then nothing beyond that. Just so I have got it clear: 60 per cent of that reduction is as a result of Leadbeater's possums?

**Mr TRUSHELL** — Broadly two-thirds of that reduction is the result of either things that have already been put in place or things that we forecast to be put in place over the planning horizon.

**Mr O'SULLIVAN** — So that could be future coupes where Leadbeater's possums will be found.

**Mr TRUSHELL** — Absolutely.

**Mr O'SULLIVAN** — Yes, I understand that. I am just trying to get it clear in my mind. So with those future forest areas that could have Leadbeater's possums, do you actually allocate where those areas of land are now?

**Mr SPENCER** — No. But we are projecting they are in the areas they ultimately could be.

**Mr O'SULLIVAN** — But they could be anywhere?

**Mr TRUSHELL** — Absolutely.

**Mr O'SULLIVAN** — Okay. So unless there is a coupe being found or a Leadbeater's possum being found, it can be logged, and if there is one found, there is the 2-kilometre buffer zone set up. So in terms of allocating for next year, are you doing that on the basis that there might be a possum there, or do you actually have to wait until there is a possum?

**Mr TRUSHELL** — No. When we are forward allocating timber we are factoring in an assumption that the current rate of detection will continue for the next seven years.

**Mr O'SULLIVAN** — When you do find a possum, what happens then? Tell me how it works once one has been identified.

**Mr TRUSHELL** — It will either be the result of our own preharvest surveys or a third party report or work that the Department of Environment, Land, Water and Planning or the Arthur Rylah institute undertakes — —

**Mr O'SULLIVAN** — So when you find one, what happens?

**Mr TRUSHELL** — We will immediately put in place the buffer. If a third party does it, we seek advice from the department. We are advised. We are asked to put in a precautionary buffer until the site is verified — —

**Mr O'SULLIVAN** — And who is it verified by?

**Mr TRUSHELL** — The department.

**Mr O'SULLIVAN** — The department. And who do they use to do the verification?

**Mr TRUSHELL** — I am not entirely sure — —

**Mr SPENCER** — It is undertaken internally. The verification is in the vast majority of times a clarification of the quality of the information provided, not a resurvey.

**Mr O'SULLIVAN** — Is there any independent verification of what the department does in terms of identifying that coupe and then putting in place the protection zone?

**Mr TRUSHELL** — Not that I am aware of.

**Mr O'SULLIVAN** — That is a question I would have liked to ask the department, but they, for their own wisdom, have decided that they would pull out this morning and would not appear here today. But that is something that we might come back to.

**The CHAIR** — Put your money on it, absolutely. By the way, I hate to cut in, but I have to ask this: does the buffer move with the possum? If the possum goes for a wander, does the buffer go with it, or is it a buffer set in stone?

**Mr SPENCER** — The design of the buffer is that the possum has a home range of approximately 3 hectares.

**The CHAIR** — Active possum!

**Mr SPENCER** — If a possum is found, a 200-metre buffer would incorporate 3 hectares wherever it is in relation to where the possum is found. So if they are on the edge or in the middle, the area of 12 hectares ensures that it concludes, which is the 3 hectares of the home range. That is the design. There may be other theories of the home range and whatnot, but when it was designed, that was the notion — that wherever that colony is, putting a 200-metre buffer on the sighting will incorporate the location of that colony's home range.

**The CHAIR** — Fascinating. I am sorry, Mr O'Sullivan, continue.

**Mr O'SULLIVAN** — I have to clarify, sorry: the department pulled out yesterday, not today.

In terms of the review itself that was meant to be triggered once we hit 200 couples, I have got conflicting information in my mind. We have heard from one of the early witnesses that that review has never taken place, but someone told me in the last couple of days that it has taken place, that it started last year but it either has not been finished or has not been released. Could you verify, for the committee, as to which one it is? Do you have that information or do you know that?

**Mr TRUSHELL** — Yes, there has been a review, which we have provided some input into, but we have not seen it and we are not privy to the final report of that review.

**Mr O'SULLIVAN** — Okay. I guess it is a bit difficult to answer this question, but once that review is made public — and I hope that will be made public, but we are not sort of getting any information as to when that might be — do you know what the possible implications one way or another would be from the results of the review?

**Mr TRUSHELL** — No. We have got — —

**Mr O'SULLIVAN** — Is there any framework in place in terms of: if it is A, this happens; if it is B, this happens? Is there some sort of a scenario as to what will happen from the review?

**Mr SPENCER** — We have no line of sight of the outcome of that review.

**Mr O'SULLIVAN** — Who would provide that or who would give us that information?

**Mr SPENCER** — DELWP are undertaking the review.

**Mr O'SULLIVAN** — Okay. In terms of the colonies, the review is triggered at 200 and now we are understanding that it is somewhere in the 600s in terms of the number that have been found, and then you guys are projecting that it could be up to 875, based on that 125 you are finding each year in terms of your modelling, this Leadbeater's possum seems to be breeding pretty well and spreading quite well. The original intent was that because it was endangered — what was the word — critically endangered, all these protection measures were put in place. It seems that it has worked, because the numbers have increased dramatically and we are hearing some numbers in the thousands of how many of these little possums there are. Do you think as a result of the booming numbers of the Leadbeater's possum that the 200 metre exclusion zone could be brought back to 100 metres? Has there been any modelling or discussion in relation to that?

**Mr TRUSHELL** — No. I think the challenge at the moment is, despite all the work and effort, we have not seen a population viability analysis been done. I understand there was some work doing to unbiased the sample. There had obviously been a very heavy focus of survey effort around timber harvesting areas, and there was work undertaken to, I guess, unbiased or attempt to unbiased that sample.

The reality for us is we operate under a regulatory regime that is in place today. We have to make some commercial decisions around how we allocate wood, and the matter had become very urgent over the last six months. As to if there is any change to that prescription we would need to factor that in to our future resource availability assessments. The caution I exercise is we have forecast the current prescription for Leadbeater's possum over the next seven years. It is not clear to us whether there will be a revision of that prescription at some time or there will not be, but we have had to make an assumption.

**Mr O'SULLIVAN** — Who would trigger that?

**Mr TRUSHELL** — It would have to be led by the department. Ultimately I am not entirely clear of the process — whether that is something the minister for environment could approve. But for us the caution I exercise is that if there was a reduced buffer, for example, to 100 metres, which has often been talked about, we would obviously model that over the full 20-year period.

**Mr O'SULLIVAN** — Have you done any modelling in that space?

**Mr TRUSHELL** — Well, not detailed. It would not release all of that volume is, I guess, what we are saying. We would take a projection from seven years out to the 20-year full resource outlook horizon.

**Mr SPENCER** — I would also say that from personally being involved in the Leadbeater's advisory group process, the challenge here is that through more sightings there has come more information. We are finding possums at a rate that we did not expect and in areas that we did not expect — in young regrowth and in areas outside the range that we would have anticipated. The challenges are where they live and the hollow-bearing trees they are in. So a revision of the prescription would require consideration of what more and different information do we know today, and that is the challenge that the reviewer is going to hopefully cover.

**Mr O'SULLIVAN** — Do you think we are getting to a point where we probably need to review those settings because as you say we are finding it in places — we are finding it in new growth or recent growth, not just old log growth, which is what we had expected — and there is a lot more of them that we know of now. As I understand it, the survey work is only done in the native timber coupes and not done actually outside that as well, so there could be thousands and thousands of them out in that particular area. Do you think we need to possibly review those settings that we have currently got in relation to the protection zones and the way we sort of deal with the Leadbeater's possum? Because at the moment it is putting the future of the timber industry in question.

**Mr TRUSHELL** — I think on that question around thousands, or whatever, in fairness, if you were to ask most people who are involved in this, the rate of detection has been much higher than anyone really anticipated. As Lachlan has pointed out, it has certainly been found at a very high percentage in young regrowth forests, in burnt areas, and in some areas where people would not have necessarily expected to find them. Our view is yes, we think it needs to be reviewed and considered. A proper population viability assessment needs to be undertaken, and there needs to be a proper evidence base to support any future prescriptions. Our view is the current buffer is highly precautionary and is having a significant impact on the industry and is likely to, if it stays in place, for some time to come.

Having said that as well, the challenge for us is that operationally it is very difficult. While there is impact on future resource availability, it is a very challenging environment to conduct operations in. By having to re-jig change planning it is placing our staff and contractors under a fair degree of stress. It certainly risks, through having to change planning on an ongoing basis, safety, and it potentially risks other environmental outcomes because of the haste with which we are having to change plans. We actually are carrying surplus staff at the moment to try to balance and manage that workload. So it is a particularly challenging period to operate in.

**Mr BOURMAN** — All my good questions have been asked by everybody else. Thanks for your presentation, gentlemen. Roughly how many hectares are there of loggable public land in Victoria?

**Mr TRUSHELL** — Good question.

**Mr BOURMAN** — Are we talking 10 000, 100 000, a million,

**Mr TRUSHELL** — I think I will take the question on notice, and I should. We have got a large area allocated to us of around about 1.4 million hectares. It is a very small subset of that area that is merchantable, available, once we take, one, the commercial viability of operating in certain areas, the code exclusions, access fragmentation — —

**Mr BOURMAN** — So there is a lot smaller area that is practical.

**Mr TRUSHELL** — Yes, significantly smaller. Certainly for eastern Victoria, where the vast majority of our operations occur, it comes at around about 6 per cent of the public land base in that part of the world.

**Mr BOURMAN** — I am no mathematician, but I have been doing some work whilst everyone else has been doing it: there is, at last count, I believe 617 special protection zones for the possum.

**Mr TRUSHELL** — For the possum, yes.

**Mr BOURMAN** — They are each 12 hectares, which makes 7404 hectares. Next year there will be 8892. I am just wondering how that works as a percentage of what they are actually logging. How much is it going to squeeze it? I would like if you could actually get back to me. It is on merchantable stuff — I mean, obviously if there are areas they cannot get to or it is the wrong stuff. It would be very interesting to see how it works as a percentage.

**Mr SPENCER** — Just in relation to the particular zones, to date an average of 2.8 hectares of the suitable and available ash is within each zone. That is taking into account reserves and other forest types and other ages and whatnot. That is the average to date, which is a small portion of the 12 hectares — about 23 per cent.

**Mr BOURMAN** — This question you probably cannot answer, but I will throw it at you anyway. Why such a big area when there is obviously not a lot in there that is worrisome from a logging point of view?

**Mr TRUSHELL** — Why is such a big area allocated?

**Mr BOURMAN** — Yes.

**Mr TRUSHELL** — Yes, because it is. The area that is merchantable is, as I said earlier, highly fragmented and spread throughout that area, so the timber resources within the general management zone and special management zones, the zoning scheme used within state forests, all of the timber assets within that area are allocated to us, but when we break that down obviously there is a lot of regrowth forest from fires in previous harvesting. That will come into play in the long-term future; we model our resources over a 100-year period. But the availability of a commercially viable and an extractable mature resource is relatively small across that area.

**Mr BOURMAN** — So would it be fair to say you would not be doing clear-felling, assuming there were no possums there, you would not just go through and wipe out everything to get the 23 per cent of ash — that you would be very selective?

**Mr TRUSHELL** — We model the areas that are available to us over that 100-year time horizon.

**Mr BOURMAN** — But in a practical sense, we pick an area today, we go out there with our chainsaws or whatever they do these days and 23 per cent of what we see is merchantable, so obviously the rest of it we are not that interested in.

**Mr SPENCER** — There may be areas of locally intense, but generally, yes, due to the reserves, the streams and the exclusions, it is a patchwork across the landscape.

**Mr BOURMAN** — But it is not a clear-fell operation. You have got to build a road in there obviously and do this, that and the other.

**Mr SPENCER** — It is clear-felled in the local area if it is a clear-fell operation.

**Mr BOURMAN** — Yes. But if there is one tree, you take out the one tree. If there are 10 trees, you take out the 10 trees, all things being equal.

**Mr SPENCER** — And then the reserves of trees, which are generally the same amount, will be on the edges of the clear-fell coupe or distributed throughout.

**Mr BOURMAN** — Yes, I understand the reserves. I am just trying to get my head around how the actual operation is going. All things taken into account, it is fairly selective. You do not cut your way through 20 hectares of non-merchantable or the wrong species just to get to a good ash tree or something like that.

**Mr TRUSHELL** — No. We would build a road or use a road to that area.

**Mr BOURMAN** — Can the roads go through a special protection zone at all?

**Mr TRUSHELL** — They can with the approval of the minister for environment.

**Mr BOURMAN** — How many of those roads have been approved to your knowledge?

**Mr TRUSHELL** — Over the last couple of years, very few.

**Mr BOURMAN** — Single digits, double digits?

**Mr SPENCER** — One.

**Mr BOURMAN** — That is very few, I will give you that.

**Mr SPENCER** — I was not sure if it was one or whether there were some earlier on. Prior, that approval had been delegated, and it is assumed that we have access to that resource. The approval process is in place to ensure that there are not appropriate alternatives and whatnot, but we have not been able to get approval recently for those access roads.

**Mr BOURMAN** — How many applications would you have put in just for the last 12 months, just to get an idea?

**Mr SPENCER** — Again do not quote me on the exact number, but we are talking of is it 30?

**Mr TRUSHELL** — Yes.

**Ms DUNN** — You can take it on notice.

**Mr BOURMAN** — It is just to get an idea. Who makes the call in the end? Who wields the final rubber stamp as to whether it gets done or not?

**Mr TRUSHELL** — Riding through SPZ?

**Mr BOURMAN** — Yes.

**Mr TRUSHELL** — The approval of that is the approval of the minister. That minister can delegate that authority, but they currently have not.

**Mr BOURMAN** — Okay, so it is the minister — in this case, herself. Let us get down to the reduction in available logging areas. About two-thirds are possum related, and there is another one-third. What is the one-third?

**Mr TRUSHELL** — That includes some areas of forest which have been traditionally very challenging to access because of social community issues. We have had that built into the model, but a number of those areas we have not harvested in the past. It also includes some areas of old-growth ash forest, which we have excluded, and this is outside the Central Highlands, so further up in the north-east in Tambo, because we know our markets do not want it and we think it is time to transition out of old-growth harvesting.

**Mr BOURMAN** — Just to clear it up, old growth is not the 1939 regrowth; it has not been affected by — —

**Mr TRUSHELL** — Yes. These are older stands. Old growth is protected within the Central Highlands but not in areas outside of there in Tambo, north-east and East Gippsland.

**Mr BOURMAN** — But they have been taken off the list?

**Mr TRUSHELL** — Yes. We have removed some areas, and clearly one of the reasons for our changes in harvest levels is we need to extend the catchment of supply for Australian Paper. They do not want to take old-growth trees into their supply chain, and certainly even Australian Sustainable Hardwoods has been concerned about that in the past. So we are pre-empting some things and not committing stuff to where we are heading and where industry is heading, and also we have taken a closer look at some areas of forest in the north-east that are commercially challenging to extract. We do not have complementary markets for low-grade products, and they are not economically viable to harvest.

**Mr BOURMAN** — Moving on to grading, there has been a little bit of talk about grading and wastage and things like that, and I saw a presentation a while ago about how grading changes could be made to use more of the log and less goes off to pulp. It is my understanding, though, that proposal has been put — I do not know if it is to VicForests or the department or whatever — but nothing has been heard about that. Have you got any comments you can make on that?

**Mr TRUSHELL** — We have looked at the grading system from time to time with industry. If it is something we are going to do — if we are going to make significant changes — we do need to get the broad consensus of industry, and that is because we do forward sell timber. We have got contracts in play which specify the grades and types of logs that we provide. I know a couple of years ago we went through quite an extensive process with industry, but we were not able to get agreement, but it is something we are willing to look at. It is something that we are keen to do, recognising that there needs to be broad agreement across industry. We cannot limit our ability to fulfil our existing contracts, so there may be things that can be phased in over a longer time period. There are some things that could potentially be achieved in the shorter term.

**Mr BOURMAN** — It would seem that the less merchantable wood that goes to a pulp mill — sorry, APM — and is going somewhere else to be used would be at least a step in the right direction, a better utilisation of what we have actually got.

**Mr SPENCER** — I think the challenge here is that sawmillers make their money on quality logs, and there is ongoing engagement with sawmillers about moving the mix from higher grade logs and including lower grade logs. We have seen in East Gippsland, where the volume has reduced markedly, that sawmillers are sawing E-grade logs and those logs are being included in the mix. The discussion has not been had to date, previous to recent times, about the ash sawmillers putting E grade into the mix, though we have had ash sawmillers buy E grade from time to time and be challenged with the economics of that. It is a discussion we will continue to have about the balance of timbers that you can cut from the log, the price of the log and the balance, and the manner in which we sell it to them. It is a discussion we will continue to have.

**Mr TRUSHELL** — And the economics of doing so and the capacity of our customers to pay for the material. So it is not something that ash sawmillers have traditionally sought, and, apart from some small part, their mills and the fundamental of their economics have been built around a certain quality of log.

**Mr BOURMAN** — I also saw something before regarding what looks like C-grade logs going to be pulped. Are there any measures in place to try to stop that, because obviously from a commercial perspective those logs are worth more as timber than as pulp, and I can only comment on what I have seen; I have not walked around the Central Highlands looking for C-grade logs. Is there anything in place to try to make sure the grading as per the utilisation procedures is as close to 100 per cent as you possibly can make it? Because what I saw was big logs amongst a whole lot of small logs, taking into account that you cannot take much out of the picture.

**Mr TRUSHELL** — There has always been a challenge of people grading logs on trucks when you cannot see all the external defects, but having said that, yes we do. We do have processes in place. I want to start by saying it is in our interest to maximise the value of every log produced. In simple commercial terms the margin that we make on a B-grade ash sawlog is markedly higher than we make on a pulp log, and so it should be. We have contractual incentives in place for that and also to cover the additional cost of preparation and marking and grading of sawlogs that are physically measured by our contractors. We have spot checks, so our supervising

staff are required to do active monitoring of grading on the coupes. We have a feedback system from our customers, and we act on any reports that are provided to us about non-compliance.

We do measure it. On the whole, compliance is high. We recognise from time to time there will be some small slippage. It is a challenge for the industry. It is something we want to continue to focus on, and we have got a strong commercial imperative to do so. We certainly do not want to see logs going to the wrong customers.

**Mr SPENCER** — The other mechanism we have is our contracts pay more for the production of sawlog. It actually costs more to produce a pulp log if they have to split it or they are often small and mixed; however, we pay more for sawlog because that is a reward to contractors for making sawlog, and it is passing on through an incentive to produce sawlog rather than the lower grade products.

**Mr BOURMAN** — When you say you ‘pay more’, who do you actually pay? Being a government body, you are getting it off public land. Who actually gets the — —

**Mr SPENCER** — The contractor that fells the timber and produces the wood is employed by VicForests, and within their contract their rates are increased by the grade of logs.

**Mr BOURMAN** — I think I have about exhausted my time.

**Mr LEANE** — Can I ask a question?

**The CHAIR** — Have you asked a couple already?

**Mr LEANE** — I think I only asked one, so that entitles me to about three. They will be quick. When were the buffer zones implemented? When did they come into place?

**Mr SPENCER** — That tests my knowledge, but I think it was late 2013 with the revision.

**Mr LEANE** — So far be it from me to defend the previous government’s policy, but the Leadbeater’s possum is critically endangered, according to scientists. Has VicForests had evidence that has actually changed? Have you got evidence that there are thousands of them and they are no longer critically endangered?

**Mr TRUSHELL** — It is critically endangered, and while it is listed as critically endangered it is listed, so we make submissions into those processes. There is a process for species listing.

**Mr LEANE** — It is a process outside of this room, I would imagine.

**Mr TRUSHELL** — Yes.

**Mr SPENCER** — On that point, we would encourage that there is new knowledge and that a review of the population and where it lives would occur. That is not something we make an aspersion to one way or the other. We just suggest there is more knowledge now and it should be looked at.

**Mr LEANE** — And I accept that. I suppose the last question I have got is that on your last slide the economic contribution to the state since 2004 has been quite large, as far as jobs go and what it means to the economy. So do you see any reason why the economic contribution to this state cannot contribute largely, as it has, and we can still protect a species that is listed as critically endangered?

**Mr TRUSHELL** — Yes, I do. That is what we are striving to do. I think the framework aims to deliver the triple bottom line of sustainability, which is taking into account the three pillars of economy, environment and social outcomes, and trying to achieve the right and appropriate balance. That is what we are collectively striving to do, and we are very mindful of the situation right now with the Heyfield mill. It is a very challenging and difficult issue, but it is one that highlights that, if you want to pull the lever one way within that triangle, you are going to have impacts. That is the reality that we are all facing at the moment. But we should be striving to achieve that balance, continue to review that balance and certainly understand the impacts when we make changes.

**Mr LEANE** — And so your evidence would be that balance can be achieved.

**Mr TRUSHELL** — Yes.

**The CHAIR** — Gentlemen, thank you very much — —

**Ms DUNN** — I have a question.

**The CHAIR** — Just the one, is it?

**Ms DUNN** — I actually have — —

**The CHAIR** — It is not one question with 47 parts, is it?

**Ms DUNN** — It is a question on modelling, so I think it is probably an important one to cover off in terms of our terms of reference.

**The CHAIR** — Could it be put on notice?

**Ms DUNN** — Given the complexities of this, I would rather ask it if I can, Chair.

**The CHAIR** — I will settle in.

**Ms DUNN** — I will not go back to the Leadbeater's. I just wanted to explore in relation to modelling that you prepare — you obviously do strategic modelling around supply into the future — what, if any, provisions you make for the potential for bushfire and what that comprises in terms of, if you have got a forest estate, how much you would consider may be at risk from bushfire, because it is a true risk we face.

**Mr TRUSHELL** — Absolutely. It has been an ongoing topic of discussion, how we incorporate the risk of bushfire, so we do not incorporate it into our strategic wood supply model. We manage it through forward contracting and managing risk that way. What we aim to do is have a step-down profile of forward commitments which enables us to adjust over time, and we also have force majeure clauses within our contracts. That is the way we have dealt with it. It has been a topic of consideration in the recent VEAC review, and we appreciate different people have different views about how that should be applied. When we did apply that initially, we did base it on some papers around risk, and that is the way we have chosen to go.

**Ms DUNN** — You applied fire-related risk, I guess, to the forward resource.

**Mr TRUSHELL** — Yes.

**Ms DUNN** — Do you, in terms of when you model the resource available, include in that the obligations to Australian Paper under those two instruments that provide them with resource?

**Mr TRUSHELL** — Yes, we include all of our contractor commitments.

**Ms DUNN** — Yes, so it would include Australian Paper within that.

**Mr TRUSHELL** — Yes.

**Ms DUNN** — I do have a range of questions. I am happy to submit them on notice, Chair, you will be pleased to note.

**The CHAIR** — That would be marvellous, thank you.

**Ms DUNN** — I just did want to confirm one. We had one witness say to us that there was an offer on the table of 80, 80, 80. In terms of Heyfield and future supply, do you know if that is correct?

**Mr TRUSHELL** — Yes. Well, there is an offer. Our initial position was around 80, 60, 60. We have reviewed that in consultation with government and our board, with a view of having, I guess, a better understanding in the very short term that there is stronger evidence that there is an economic model around that level of supply for the mill. It does mean we bring some volume forward. I think when we balance up, as I said, the social impacts, it is a prudent approach to take. It is one we are willing to, but we will have to obviously compensate for that in subsequent years, and ultimately we do need to go back to allocating forward timber on a market-based process.

**Ms DUNN** — Because isn't it the reality of that that in years 2 and 3 there is now 20 000 cubes that cannot go to someone else essentially?

**Mr TRUSHELL** — Further down those years, so we have got — —

**Ms DUNN** — Oh, because you bring it forward, yes.

**Mr TRUSHELL** — Yes, that is right. We had done that with the 80 000 in year 1 for us, and that was early. That was used, I guess, to start the conversation. It was our position that we wanted to get down to our forward view of sustainable harvest levels as quickly as possible, but we do want to manage that in an appropriate transition, and we will need to adjust further years down the track.

**Mr BOURMAN** — I have just one more. This will be an easy one. I am just thinking about the one road through the special protection zones. Has the lack of any other roads through any of the other ones precluded any other areas from being logged? Has it made it impossible for otherwise viable timber to be harvested?

**Mr SPENCER** — Yes.

**Mr BOURMAN** — Have you got any ideas on how much? I will not hold you to it to the exact hectare or log or whatever.

**Mr TRUSHELL** — I will have to take that notice, but we have factored those areas into our forward supply models with a view that we will be able to access those areas. If we were not able to, we would have to make further adjustments. But certainly in recent times it has made scheduling more challenging for us in conjunction with detection of the Leadbeater's possum and other issues like the Forest Industry Taskforce processes. Operationally it has created some short-term challenges.

**Ms DUNN** — Just one question in relation to grading and the conversation around that. You said you act on reports of non-compliance, and there are just a couple of things I wanted to unpack in relation to that. When reports of non-compliance are made, I guess what is at the back of my mind is industry are often reticent to report non-compliance because it is a small industry and they are concerned, I guess, about reputation and ongoing business and how you deal with that. We have seen today some evidence provided that was withdrawn from industry that now is no longer part of this inquiry. I have got evidence from community around sawlog in Australian paper mills, dumped B and C-grade sawlogs in the Royston Range and pulp and E-grade logs left in the Acheron, so there are a whole range of non-compliance issues. So the first is that industry is often loath to report it because it is a tight network. Do you act on reports of non-compliance that may come to you from community?

**Mr SPENCER** — I would say this industry is not loath to report log grading issues. It is their business to pay for the logs they get and get the logs they pay for. There is a culture of reporting, and we welcome that, and of course we respond to any issues that are raised and investigate and follow up.

**Ms DUNN** — So you would investigate a community report as much as you would — —

**Mr SPENCER** — Yes, in every instance.

**Ms DUNN** — I guess the example we saw today was probably an example of industry being reticent about providing evidence.

**Mr TRUSHELL** — The only thing I would add to that is most customers are pretty ready to report when they see the next customer getting better logs than them.

**Ms DUNN** — It does seem to be the issue at play.

**Mr TRUSHELL** — The only thing I will add there is: for our contractors their livelihoods depend on a contract with us, and the primary contractors take that very seriously. We do have provisions in our contract to deal with issues, whether they be environmental non-compliance or utilisation non-compliance, and we do. We try to work constructively with all our contractors, but if we see deliberate or malicious acts, we act very swiftly.

**The CHAIR** — That concludes this hearing. Thank you very much for your assistance and your evidence this afternoon. There will be a transcript of this proceeding heading your way in the not-too-distant future. If you can have a look at that, just proofread it and make sure that the i's are dotted and the t's are crossed and that sort of thing, that would be marvellous. Once again, thank you for joining us this afternoon. This hearing stands adjourned.

**Committee adjourned.**