

# TRANSCRIPT

## STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

### **Inquiry into VicForests operations**

Melbourne — 17 July 2017

#### Members

Mr Bernie Finn — Chair

Mr Khalil Eideh — Deputy Chair

Mr Jeff Bourman

Mr Mark Gepp

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 Richard Bolt, Secretary, and

Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources.

**The CHAIR** — Gentlemen, welcome to the public hearing 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. Mr Bolt, I think you know this procedure extremely well —

**Mr BOLT** — Yes, indeed.

**The CHAIR** — so I will not even bother to throw it to you. But I will say to Mr Hanney that we will have about 5 or 10 minutes of an opening — I was going to say monologue, but it is not quite that — and then we will throw to questions. Over to you.

**Mr BOLT** — I gather you will not be seeing the presentation on the screen. Is that right? Maybe I did not give you one to start with. I beg your pardon if I have not. It is going to be difficult to speak to a presentation that you are not looking at. Let me just adjust the way I was going to deal with this.

**The CHAIR** — Ms Topic, can we get that screen on? Is that possible?

**Mr BOLT** — I can start in any event. This is not a delaying tactic on behalf of the department, I just want to assure the committee. I will talk to it, that is all. That is fine. Let me just proceed, in the interests of time.

Members of the committee, thank you again for the opportunity to talk to you. I will give a brief overview of the role of this portfolio in overseeing the matters that VicForests is responsible for. First of all, I was going to outline the agriculture minister's forestry responsibilities. She is the portfolio minister who has clearly got the VicForests role. She is responsible for sustainable timber harvesting on public land, commercial forest policy and native timber and plantation resources. She is the relevant minister for VicForests — bearing in mind of course the shareholder is the Treasurer, as he is in all matters of shareholding — and she has legislative responsibilities, including approving the allocation orders or the allocation order in its current guise. It allocates timber to VicForests for harvesting, with which I presume you are fairly familiar. We can talk more about those.

VicForests has more accountabilities than simply to her. As I said, the Treasurer, as a shareholder, and therefore the Department of Treasury and Finance have responsibility for monitoring their performance in a commercial, financial sense. My department and I, as secretary, have responsibility under the Public Administration Act also for overseeing their compliance with all of their responsibilities. A particular obligation VicForests has, because it is operating in environmentally sensitive domains of the state on public land, is to various legislative instruments that the Department of Environment, Land, Water and Planning is custodian of related to threatened species and other obligations that VicForests must meet in undertaking its particular role.

The department, pursuant to that general allocation of duties, has a role to manage timber and timber resources, manage and advise on the allocation orders, manage the legislative agreement with Australian Paper — a major customer, clearly, of VicForests — develop policy on forestry matters and support the Minister for Agriculture in those duties that I mentioned earlier. Again this has various facets and we can explore them more, but in the interests of brevity I will give the highlights.

This relates to the portfolio responsibilities between the Treasurer, the environment portfolio and the agriculture minister. There are three pillars, if you like, on which forestry operations rest. They are environmental policy and regulation in the DELWP portfolio; industry policy in this portfolio; and commercial and operational policy, overseen by the treasury. Your terms of reference relate primarily to the commercial and operational pillar of the government's framework for managing native forestry harvesting operations. VicForests is an independent state-owned business and this area is its domain, though we do have Public Administration Act accountabilities to ensure that compliance and performance are appropriate — as I said before, as does the Treasury.

There is an order in council covering VicForests which ensures or indicates that it must be commercially focused and deliver efficient, sustainable and value-for-money services and that it must undertake its commercial activities in a manner which will maximise the long-term benefits to the state, and it has to operate in a framework consistent with Victorian government policy and priorities.

In relation to your five terms of reference, the first of those concerns compliance with VicForests utilisation standards with specific reference to log grading, sawlog preparation and coupe utilisation standards. Largely

those are matters that VicForests itself deals with. The department does not have a close or detailed role in relation to any of those criteria, simply because we judge that the commercial drivers on VicForests and its customers are sufficient to ensure that maximum value is obtained from the log resource, constrained as it must be by the environmental obligations that are set through the environment portfolio. We obviously can expand on that answer, but that is how we view our role in term of reference a.

As far as term of reference b is concerned, which concerns economic and environmental loss that is attributable to poor compliance, we are not sure precisely what poor compliance that refers to that would have a significant economic and environmental impact. We are open, clearly, to the committee raising more about that issue to which we may be able to respond. We do not have at this stage evidence of a substantial compliance problem that would warrant or that would lead to an assessment of significant loss but, as in all matters, we are always open to hearing more.

Term of reference c concerns alternatives to the current utilisation standards that could deliver improved economic, social and environmental outcomes. VicForests's order in council, which I referred to earlier, indicates it must be commercially focused and maximise long-term returns to the state and operate consistently with policy and priorities in particular, as I have been mentioning several times, with environmental constraints set in statute and in regulation. We have not come equipped with any significant suggestions on alternatives to the current utilisation standards as they apply to the actual operational parameters that VicForests works under, but clearly there may be questions on that theme and we will do our best to answer those.

Term of reference d concerns VicForests's modelling scenarios around past, present and future supply levels of commercial timber. To frame any discussion on that particular matter, the Minister for Agriculture does make resource available to VicForests via the allocation order. We can discuss the parameters of that order more should you wish. It has committed to landscape-scale resource planning that determines sustainable harvest levels from the forest resource being made available through the allocation order. There are clearly various risks concerning future supply levels of commercial timber that are well known to the committee and will no doubt be raised in this hearing.

Finally, term of reference e concerns VicForests's business practices with specific reference to its approach to customers and any disputes, complaints or investigations. In the ordinary course of business that is a matter for VicForests. We do have an oversight role, as I mentioned earlier. We are not aware of a significant issue with VicForests's handling of its relationship with customers. That is not to say that disputes never arise and that there are never complaints. By and large there is nothing systemic that has come to our attention that would warrant any particular action by the Minister for Agriculture as the responsible minister.

That is really only just setting the frame in relation to those terms of reference rather than proposing anything specific in response to them. I think as a scene setter that is as much as I need to say. Let us proceed to your questions.

**The CHAIR** — Thank you very much indeed, Mr Bolt. One issue that has been raised here this afternoon — in fact it has been ongoing for some time — and one that you may be able to shed some light on is the number of Leadbeater's possums we have in the areas that we are speaking of. I am just wondering if you, your department or anybody that your department may have met somewhere might actually have the vaguest idea how many Leadbeater's possums we are talking about in these areas where VicForests is involved in the east of the state.

**Mr BOLT** — I would say there that clearly there have been significant sightings of Leadbeater's possums in areas subject to logging. It has taken quite a number of coupes out of production through the agency of special protection zones. My department has no better insight into the number of Leadbeater's possums than the Department of Environment, Land, Water and Planning would do, and I would certainly defer to them over the question of what is clearly a critically endangered species. How present is it? I would leave that to people with much greater expertise and to that department to answer.

**Mr GEPP** — My questions relate to d of the terms of reference, around the modelling scenarios. Particularly you talked in your introductory remarks about an allocation order, so the Minister for Agriculture and your department are responsible for the allocation order to VicForests. Can you just give us some background on what is the allocation order and particularly how you determine the allocation order and who is consulted in that process?

**Mr BOLT** — Indeed. The allocation order in a legal sense is an instrument gazetted under the Sustainable Forests (Timber) Act. The most recent one is a 2013 order amended in 2014. The purpose of the order is to delineate all areas of forest that are available to VicForests to make available for logging or to indeed commission for harvesting. At the moment I think the total area of the state forest available for harvest in ash is 241 000 hectares under the allocation order. For mixed species the number is 1 579 000 hectares, but also specified in the allocation order is a five-year harvest area limit, which in the case of ash is 14 200 hectares and in the case of mixed species is 70 000 hectares.

On the extent to which there is consultation on the allocation orders, there is significant consultation. It matters enormously that the allocation order is consistent with our environmental responsibilities and particularly those of VicForests itself; therefore, as I am advised, we do consult with the Department of Environment, Land, Water and Planning and VicForests itself. Beyond that, I would have to take on notice, if that was of interest to you, who else we talked to about the allocation order, but it is certainly something which is done to ensure compliance not only with our responsibilities but with regulations that apply in relation to environment protection.

**Mr GEPP** — The allocation order, as I understand it, does not have — or does it? — a limit on the time frame. And if not, how does the department ensure that VicForests does not overharvest the native forests?

**Mr BOLT** — One means by which that occurs is that five-year limit that I mentioned before, which is specified in the allocation order. So while in theory a very large area of forest is slated as available for harvesting, that limit means that there is an effective extended rotation required before harvesting occurs. VicForests has the incentive to find the commercially attractive areas within those five-year levels, and naturally they will be the more mature stands of timber. That means that effectively there is a significant constraint on the rate at which the available timber resource might be harvested and then regenerated and allowed to redevelop. On top of that the code that applies to timber production, which is again an environmental code, contains other constraints that within areas available for harvesting limits which particular trees in which particular zones may actually be harvested. As I recall it, and I stand to be corrected on this, there are buffer zones around streams, and there are habitat trees that are protected, so in both in the macro and the micro there are constraints that act to limit overharvesting.

**Mr GEPP** — Just as an extension to that, I understand that the timber release plan must be consistent with the allocation order.

**Mr BOLT** — That is correct.

**Mr GEPP** — So how does the department go about ensuring that there is that consistency?

**Mr BOLT** — The timber release plans are a five-year rolling plan. They used to be, as I understand it, the primary tool by which timber was allocated. That is now the allocation order. VicForests itself promulgates the timber release plans, and they are required, as you say, to be consistent with all of its legal obligations, including the allocation order. They are a more detailed exposition as to which areas may be the subject of logging. They will nominate coupes which are available or are planned to be possibly logged within a five-year rolling time horizon. It does not mean that every one of those coupes is ultimately harvested. They are prepared by VicForests and submitted to the VicForests' board for approval, and we rely upon the board primarily to ensure that they are consistent with all of VicForests's obligations.

Again, we do have an oversight role to ensure that compliance is achieved. We have not been made aware at any time that the timber release plans promulgated by VicForests in any way contradict its obligations. If we were made so aware, then we would clearly be investigating and asking questions through the minister. The minister would be asking question of the VicForests board.

**Ms DUNN** — Thank you for your presentation today. Firstly, I just want to go to some evidence that was provided to us earlier today regarding compensation payments to Australian Paper, which were quoted as being in the order of \$1 million per annum. I am just wondering if you can clarify at all whether that is the case?

**Mr BOLT** — I cannot verify that particular figure, and to the best of my knowledge there is no per annum figure to which Australian Paper is entitled. The reason there is provision for some payment to Australian Paper arising from its entitlements to timber under the legislated agreement, the forests wood pulp agreement, which is

enshrined, as you know, in legislation, is that there is a requirement that they be supplied with timber from a designated forest area. As you know, the forest area has become increasingly incapable of supplying the full quantum to which they are entitled, and if there is any timber supplied from outside that area that raises costs due to transport, there is an obligation, in a sense, to make Australian Paper good in relation to those increased costs. So the question of exactly how much those payments are depends upon from year to year, as I understand it, how much is supplied from outside the area. Claims arise from that. There is no fixed amount of \$1 million per year of which I am aware. I can certainly clarify that, because I do not wish to mislead you. If there is something I do not know, then I will correct that, but that is my understanding.

**Ms DUNN** — I do not expect you to know year to year off the top of your head. Perhaps you could take that on notice and clarify what those figures are on an annual basis.

**Mr BOLT** — I am happy to.

**Ms DUNN** — It is my understanding that it has been since the 2009 bushfires that they might have been paid. I wanted to try and understand more about who is actually keeping VicForests accountable. What has caused my question in this regard is that in the latest resource outlook for VicForests they talk about an availability of 150 000 cubic metres being available up to 2023 and then scaling down 130 000 cubic metres from then. This is setting aside Australian Paper and Dormit, which are lower grade timbers. This is more the D-plus sawlogs from the sawmills. If you do a quick calculation of the contracted supply of those particular mills, it works out to be in the order of around 167 000 cubic metres per annum that is committed to those sawmills. So there is a shortfall. It is my understanding that that shortfall at the moment is currently being made up by purchasing timber from Tumbarumba in New South Wales. However, I guess what concerns me into the future is when supply is scaled down the shortfall is even greater. Who is keeping an eye on VicForests in relation to these matters? I just wonder how they can commit wood that does not reflect their own resource outlook. Who is keeping them accountable?

**Mr BOLT** — I think the contracts to which you refer, while I have not done the numbers to know that there is 167 000 versus 155 000, were contracted at a time when the resource outlook was higher than it is now. Over the last several years, as we are all aware, with the introduction of the special protection zones to protect the Leadbeater's possum in particular, but also due to other factors, such as fire, the outlook has been revised downwards. I am inferring that that was not foreseen at the time by the board as a significant enough risk that would have it enter into lower contracts than it did. Of course it does have, as you have said, the opportunity or the option of purchasing make-up timber from outside to ensure that the contractual obligations it enters into, should it fall below what can be harvested from the forest, can still be met. As far as who is overseeing VicForests, I make the observation that VicForests is clearly assessing resource on the basis of first principles, compliance with its statutory obligations rather than assessing the resource to simply meet its contract book, and I think that is possibly a sign — that that ought to give some confidence that it is not seeking to harvest what for environmental and species-protection reasons it should not. So I am not aware of what problem particularly arises here.

At any time there will be risks that affect resources that are not foreseen at the time contracts are entered into. That is not unusual in commerce. It is probably a particular risk when you are dealing with something subject to so many natural variations, such as fires and such as different assessments of species vulnerability, but does that indicate any imprudence on the part of VicForests, which is possibly the import of your question? Based upon what I have seen I would not form that view, but clearly VicForests has to look very carefully at a level of resource that is consistent not only with its current view of what that resource may be but what future developments may impact on that resource. One thing they cannot easily do is predict what wildfire may do, and that has been, I think, the dominant driver of the progressive reduction in resources available for timber over a period of time.

I cannot really say much more than that. It is clearly an area of significant risk, and VicForests has to seek to maximise commercial outcomes against a reasonable assessment of risk. I think they do a reasonable job of that, but they are not blessed with perfect foresight.

**Ms DUNN** — No, indeed. In terms of the number of contracts in place — I am happy for you to take this on notice, because you may not know off the top of your head. I am just wondering how many contracts are currently in place, and what is, I guess, the final date on those contracts. I guess it is in terms of matching up what the obligations are with what the resource is and seeing where the mismatch may be in that. I guess the

other side of that is: should the worst thing happen and there is a fire and an impact on resources, what issues might arise in terms of lack of supply under those contracts?

**Mr BOLT** — I think it is best for VicForests to be asked that question directly because which contracts they enter in from week to week is something that they know better than we do. I do think they are likely to be reluctant to get specific about who exactly is contracted to what degree, but I see no problem at all with them providing the profile of commitments over the next several years so that you can see how they tail off — and they do tail off over time. You can draw some conclusions from that as to how much risk of wildfire undermining a future ability to supply those contracts there is. But all I am aware of is that there is a significant tail-off in contractual obligations over the next several years, so the risk of wildfire can be judged against that profile. But I can certainly suggest to the committee that you direct that question to VicForests, and I would certainly be encouraging them to give you the information — but in a way that does not also disclose individual commercial positions.

**Ms DUNN** — Yes, absolutely. Thank you. Earlier today I raised the issue of a price cap that had been negotiated for wood supplied by VicForests to Australian Paper. Are you aware whether that price cap for Australian Paper has concluded?

**Mr BOLT** — If you do not mind, I will just make sure that I am fully up with what is in my briefing notes on that question. I do not think I have in my head, Ms Dunn, a price cap. I think the question is: has VicForests provided some kind of concessional pricing to Australian Paper? Is that what you are suggesting?

**Ms DUNN** — It is my understanding there was an agreement between the prior government and Australian Paper to institute a price cap, and that was to resolve a dispute between Australian Paper and VicForests, but I am just wondering whether that price cap still persists today or it has actually run its course and is no longer in place.

**Mr BOLT** — I think, for two reasons, I will take that on notice: on the basis, firstly, of being sensitive to any commercial consequences of providing information but also, I think, again it is better to direct that matter straight to VicForests. I will ask them to consider the request, but no doubt you will go straight to them with that same question.

**Ms DUNN** — No problem. Does the department have any involvement in the current negotiations regarding the purchase of Heyfield at all?

**Mr BOLT** — Do we have a role? Yes, Ms Dunn, we certainly are assisting the central agencies. Particularly DPC and DTF are both more significant to that decision than are we, but yes, we are part of and providing advice to them on that question and have been.

**Ms DUNN** — Are you able to advise whether any of that advice would include advice around providing indemnity or compensations within the contract arrangements with Heyfield or the purchase of Heyfield?

**Mr BOLT** — Matters of indemnity and matters indeed of the terms of purchase are confidential at this stage. They are ultimately more matters for the Treasurer and his department than for us, so I am not in a position to answer that question.

**Ms DUNN** — Okay. Thank you. Are you in a position to confirm whether eventually the plan is for the government to in fact sell 51 per cent of the Heyfield mill back to private owners?

**Mr BOLT** — I resort to my previous answer. I do not think I am in a position to answer that question.

**Ms DUNN** — That is okay. The other thing is that when we spoke to the Department of Treasury and Finance this morning I raised the issue of competitive neutrality arrangements in relation to Heyfield, and they suggested that I perhaps direct those matters to you. I am just trying to get a handle on, I guess, how it works with a government-owned mill that is competing against the private sector.

**Mr BOLT** — That is a good question, Ms Dunn, to which there is I think a pretty straightforward answer. The first point to make of course is that no sale has been concluded, so we are still talking about a hypothetical. But should it conclude, then there is no intrinsic difficulty in separating the governance of a state-owned mill

from a state-owned timber supplier, being VicForests, and thereby ensuring that there is no conflict of interest sitting within VicForests in allocating further timber.

On top of that, the VicForests practice has been to have open auctions of timber, and I am expecting that any private participants in such an auction would be seeking assurances that every bid will be treated on its merits and there will be no particular advantage given to a state-owned bidder, and I would be expecting that VicForests would provide that assurance. I see no intrinsic difficulty in managing such a dual role that the state would have, because we are a large government and we are capable of separating different functions like that so that they act with competitive neutrality.

**Ms DUNN** — Earlier in your introductory comments you talked along the lines of — and I am very much paraphrasing — the commercial imperatives of VicForests ensuring the maximum value in terms of their role in relation to the sale of timber. Now, as part of this inquiry we have heard reports of sawlog being exported overseas, we have heard of sawlog being pulped — sawlog being supplied as pulpwood even though it is sawlog grade — and conversely we have heard of low-grade wood being supplied to Heyfield that was unusable because it was on the other side of the ledger, too low. Whose role is it to make sure that maximum value is in fact being received on behalf of the Victorian taxpayer, because there are a lot of people from the environmental side of the equation and industry as well saying this is not working? So who is looking at VicForests and making sure it is working properly?

**Mr BOLT** — I think you would have heard from the Treasury representative this morning that there is a governance arrangement involving corporate plans, and I believe they are subject to statements of expectation, but they are certainly subject to guidance from the Treasury portfolio as to achieving commercial outcomes. Of course the board is therefore ultimately accountable for those obligations, and the performance of VicForests is subject therefore to quite considerable scrutiny. As much as you may have been made aware of, or you may have had put to you, various complaints about grading and what you might call suboptimal utilisation of timber resources, I am not aware of there being any systemic difficulty. There may be the occasional event that occurs that some market participants would regard as indicating questionable judgement. That always happens in commercial transactions. But is there a general under-utilisation or suboptimal utilisation of the timber resource? Not that I am aware of and not that any of the advice that we have been given by those who oversee VicForests directly would indicate.

All of this is subject of course to the important obligations VicForests has to fulfil its environmental obligations, which are considerable in relation to protected species, ensuring they operate within designated areas and protecting catchment areas where there are particular constraints that they face in relation to logging. My understanding and my very clear belief is that they take those very seriously, and so they are being examined, and they are being assessed. It is first and foremost an issue for the management; secondly it is an issue for the board; and thirdly it is an issue for the Treasurer and for the Minister for Agriculture. Also the environment minister no doubt takes a keen interest in the extent to which their environmental obligations are met. I believe there is adequate oversight of the VicForests operations, and I do not believe there is any material or substantial issue with its performance, but of course we would always look at the next tranche of evidence that might be brought forward to ensure that is true.

**Ms DUNN** — Can you explain why VicForests continue to fail to identify threatened species as part of their obligations?

**Mr BOLT** — I am not aware they have failed, Ms Dunn. If there is particular evidence, have you put that to them would be a question I would first raise.

**Ms DUNN** — We have had evidence provided to us today by Environmental Justice Australia. I cannot recall how many cases they cited in the last 18 months, so I am not going to guess at it, but it is in terms of VicForests failing to identify threatened species. Therefore citizen scientists have in fact come to the fore and identified threatened species within logging coupes where logging has halted because of the presence of those species.

**Mr BOLT** — I think in fact it is a welcome development that we are seeing sightings being made by citizens and they are adding to their ability to protect an endangered species. Should VicForests have seen those is perhaps the question you were raising, and I have not any particular view that it was able to observe those possums and failed to do so. So the premise of your question I do not accept at this point. I do not see that there

is any failure per se. It is more that the more people are looking, then no doubt, all else being equal, the more they will find. VicForests certainly take very seriously working with the environment portfolio, as I understand it, to assess the areas in which it is more likely that habitats or indeed colonies will be found and have played their part in making such sightings, but they are not the only ones looking and therefore they are not the only ones finding. That is probably all I can say this point.

**Ms DUNN** — Are they looking in every instance they should be looking?

**Mr BOLT** — I am not really briefed to know precisely how widely they are looking and whether that is meeting expectations. I think it is a question that I would probably defer to the environment portfolio on. I think that you were due to be briefed by an unfortunately stranded DELWP witness today.

**Ms DUNN** — Yes, a stranded Mr Miezis.

**Mr BOLT** — I imagine that once you are able to talk to Mr Miezis you will get a view from that portfolio on that subject.

**Ms DUNN** — I will be happy to take that up.

**Mr O'SULLIVAN** — Thank you, gentlemen, for coming in to speak to us today. Mr Bolt, would you say that there are more Leadbeater's possums now or less Leadbeater's possums than there were three years ago?

**Mr BOLT** — I am simply not qualified to say, Mr O'Sullivan. I think that it is heartening that they are being found. As I read the latest report, the most expert assessment would suggest that does not change their status as a critically endangered species, and it is not something my department or I personally have any ability to second-guess or comment on. I do not know whether there are more or fewer than in the recent past. It is simply heartening that significant sightings have occurred.

**Mr O'SULLIVAN** — I agree with that. Do you think that the 200-metre exclusion zones have actually been successful in preserving the Leadbeater's possums?

**Mr BOLT** — Again, I am not qualified to comment on that. They have only been in operation for a very short period of time, so the impact that they have had on the possum would be a matter for possum experts, but I am thinking that, given that they are a fairly recent innovation, I doubt they are a primary cause of increased numbers at this stage. But, again, please direct that to those who are better able to answer it, particularly colleagues from DELWP.

**Mr O'SULLIVAN** — We had earlier witnesses today say that VicForests receives special treatment by government in relation to a number of things, whether it be construction of roads or maintenance of roads, subsidies that they get and access to timber after fires in terms of accessing burnt timber for a whole range of purposes. Would you agree that this industry receives special treatment or treatment that is different to other industries by government?

**Mr BOLT** — I am not aware of any special treatment that would in some way compromise the overriding desire of government to manage the land and its environmental values well in the sense of I am not aware of decisions which have been taken against any overriding policy principle or regulation applying to the areas that VicForests logs.

**Mr O'SULLIVAN** — What about the drain on the public purse? Would you say that VicForests has been a drain on the public purse, because that is also evidence that we have heard today?

**Mr BOLT** — No. There are times when VicForests requires a certain amount of support because of its costs being affected by changes in the resource outlook. I think it is quite important that they do have such access to ensure that the incentive is on them to remain compliant and at the same time still remain viable.

The point I would make I think is that VicForests exists so that industries and communities that depend upon the resource that it supplies can continue to function and continue to maintain an income stream and maintain their businesses. VicForests is not supported for its own sake; it is supported because of the communities and industries that are vitally dependent upon what it provides, and any question of being a drain on the public resource would need to take into account, if you like, the public revenues that flow not only from what

VicForests itself directly does but the industries that are supported and indeed depend upon its resources. In that sense I think it is undoubtedly a net economic benefit to the state in the context of the timber industry itself. So on the question of VicForests being a drain, I do not see evidence that it is a drain. In the end of course looking at the business of VicForests itself, technically I would suggest that question is better answered by Treasury, but I think the answer I have given you is our view.

**Mr O'SULLIVAN** — Another piece of evidence we have heard today said that the environmental laws are not being enforced by the regulators or government in relation to the way the timber industry is conducted. Would you agree with that statement?

**Mr BOLT** — I am not aware of any shortfall in compliance. I would ask you to direct that question to the environment portfolio to get the authoritative view about whether or not there is a failure to enforce compliance. I make the point again: my perception — our perception — is that VicForests takes its environmental obligations very seriously. It takes the allocation order, the code of timber production very seriously. Special protection zones have been established. It has done things. It has withdrawn coupes from logging on the basis of special protection zones. That is compliance, but that does not mean that there is never going to be a complaint or a circumstance that can be brought forward. Complaints ought to be looked at for their veracity, and what I have said does not mean that there is cause to reduce vigilance on the environmental performance of VicForests. It should remain subject to that vigilance, and that I think will assist in ensuring full compliance in the future.

**Mr LEANE** — Chair, I will give asking a question at this stage a miss. I might give Mr Bourman a go and then, if I have got one, I will go then.

**Mr BOURMAN** — Thank you for your presentation, gentlemen. I want to go through the allocation order process. I am quite new to all this, so I am going to work from the top down. The minister gives an allocation order to DEDJTR, DEDJTR passes it to VicForests, and away they go; correct?

**Mr BOLT** — It is more that we advise the minister on an allocation order and she imposes it directly on VicForests.

**Mr BOURMAN** — You got my next question. The minister makes the allocation orders based on the department's advice, so my question then is: with the previous government we had a government prepared to sign a 20-year agreement, and now we have got a government that says we are running out. How have we got into this situation with such wildly different outcomes based on advice from, I am presuming, the same department? I am not trying to blame anyone here. I am just trying to see how we ended up here.

**Mr BOLT** — I do not think that is a product of the allocation order, per se. The order itself, I do not believe, has been varied since an amendment that occurred in 2014. The contraction of the resource has more to do with the consequences of, as I said, some fire consequences, and that has been occurring progressively — ultimately over decades but certainly over recent years. The introduction of special protection zones is another factor that has been significant and, as I said, was not anticipated under previous resource outlooks. I am not sure I can answer the question better than that, Mr Bourman. I think that it is a product of an unforeseen circumstance.

**Mr BOURMAN** — When the department gives advice — I do not know if I have deduced this incorrectly — it does not take into account special protection zones and fire consequences; that would be for the minister. I am trying to figure it out.

**Mr BOLT** — No, we do. The allocation-ordered special protection zones — now we are getting into areas of technicality, and I would prefer to take additional advice if it gets much more detailed than this — are imposed within the areas that the allocation order makes available for logging and excise those, even though the more broad area is available for logging. What I am trying to get to is that they are particular removals of areas of forest within a broader area that, up until that point, was fully available, or more available, for logging by VicForests.

**Mr BOURMAN** — So the allocation order would be a wider area, and then you would reduce via fire risk zones or special protection zones.

**Mr BOLT** — That is correct. In the same way that the code of timber production itself excises or exempts certain areas, such as buffer zones around streams — they may sit within an allocation order area, but they

cannot be logged because they have particular environmental values, obviously, to stream health. Similarly within certain water catchments the rate of logging is, I am advised, also constrained to reduce effectively the water demand of growing trees, because they compete therefore with our use of water. So even though the order allocation ought to make certain areas available, there may still be constraints within those areas on the use of timber. That is what we are seeing here: the more immediate resource outlook is constrained by the fact that the ash resource in particular is a fairly confined resource within the Central Highlands, and there are these additional constraints that come across them. When those are imposed, then the resource outlook changes. That is what has occurred with special protection zones.

As Mr Hanney is pointing out, on a number of occasions VicForests have had their resource estimation — and they are the ones with the expertise to provide that; we defer to them on actually estimating what timber resources a given area can yield — scrutinised by independent parties, and their methods have been found to be of good quality.

But again, sometimes things happen that change the game, and that has certainly occurred with fire and with endangered species protection — not only the possum but others besides, as I understand it.

**Mr BOURMAN** — Regarding the fire component of the planning, at what level during this process is that injected? Is that injected with DELWP, with the minister and with VicForests? Who actually makes the determination?

**Mr BOLT** — I think it is more a case of when fires occur, they occur at really unclear and obviously unpredictable intervals and on unpredictable scales. When they occur, they again change the game, if you pardon the vernacular, with regard to the available resource, and they require resource estimates to be recast. So when we see any of the fires that have occurred at random periods over the last decades, we have to then adjust the resource based upon the fact that older trees have been killed and the same mature stands that might have been available for harvesting are no longer there.

**Mr BOURMAN** — The timber allocation, you said, changed in 2014 — not the allocation; I have forgotten the word you used, but there was a change in the outlook, I guess, in 2014.

**Mr BOLT** — The main change was in 2013. There was a slight amendment in 2014. Sorry, what was your question?

**Mr BOURMAN** — That is all right. I am trying to get my head around this. The question is: what was the change, and, more to the point, when in 2014 did it occur, because 2014 was obviously an election year, and I am trying to figure out if there are any politics involved in this as opposed to just running with the science, for want of a better term.

**Mr BOLT** — Let me see if I can help there.

**Mr BOURMAN** — I am happy with just a month, not necessarily a day, unless it is November 2014.

**Mr BOLT** — I do not want to get drawn into that notion. I do not actually have the specific dates here, unfortunately. I might be able to help you with that. Let me try one more time.

**Mr BOURMAN** — You can take it on notice if it is a problem.

**Mr BOLT** — I beg your pardon; I think I do have dates. The 2013 allocation order was promulgated by Minister Walsh on 1 October 2013. The amending order, as I have it here, was signed on 29 October 2014 and gazette on 30 October 2014. As best I understand it there has been no subsequent change to the allocation order, but if that is not the case, I will correct the record with the committee.

**Mr BOURMAN** — I will take that at face value. I guess the question between the special protection zones and the increased fire risk is where we have gone from a potential 20-year supply to not enough. If I was to paraphrase it, they would be the two major factors based on what I am hearing.

**Mr BOLT** — Can you just repeat that? I am sorry, I am not being obtuse, but — —

**Mr BOURMAN** — No, that is all right. Sometimes I am a little obtuse unintentionally. From 2013 when we had an allocation or an expectation of being able to sign a 20-year contract — and I am using the Hermal Group as an example — to 2015 —

**Mr BOLT** — I see where you are going.

**Mr BOURMAN** — where there is not enough, would it be fair to say that it is the special protection zones and the fire risk that are the major contributors to the difference?

**Mr BOLT** — I really cannot comment on what lay behind decisions at that time. The allocation order I do not think is the primary issue here, but exactly what was in the mind of government at that time relating to the ability to contract, I really cannot comment on, partly because it was under the previous government and partly because I was not in this role at that time. I do not know the answer.

**Mr BOURMAN** — I think that is it for the moment, Chair. I could go on for hours, but I will not.

**The CHAIR** — That is a good idea. Mr Leane?

**Mr LEANE** — I cannot go on for hours, and anything I was going to ask I think Mr Bolt has covered, so thank you.

**The CHAIR** — That concludes this portion of the hearing. I thank you, gentlemen, for joining us. You will receive, Mr Bolt, as I am sure you are absolutely aware, a transcript of this hearing within a short period of time. If you could do the right thing by us and have a look at it, that would be a marvellous thing. We thank you very much for coming in today.

**Mr BOLT** — A pleasure; thank you.

**Committee adjourned.**