

TRANSCRIPT

STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

Inquiry into VicForests operations

Melbourne — 9 August 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 Nathan Trushell, Acting chief Executive Officer, and

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

The CHAIR — Gentlemen, thank you for coming in this evening. 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 may say here this evening, but if you go outside and repeat the same things, those comments may not be protected by this privilege. I ask you to give us an opening statement or an opening presentation of 5–10 minutes, and then we will open to questions. Thank you very much.

Mr TRUSHELL — Thank you, Chair. We had not planned to provide a further submission given that we have already appeared before the committee. I do note that we do stand by the submission and the evidence we have already brought forward. We have also responded to some questions on notice to the committee officers. The only other thing I would note is that since our appearance at the last hearing, we have released our resource outlook, which may be of interest to the committee.

Ms DUNN — Thank you, gentlemen, for appearing again. I wanted to go firstly to coupes and get, I guess, an idea of how many logging coupes have been surveyed by VicForests probably in the last 18 months and resulted in positive sightings of Leadbeater’s possums?

Mr SPENCER — That is a question we will have to take on notice.

Ms DUNN — That is fine.

Mr SPENCER — No problem at all.

Ms DUNN — I note that some of your surveys are actually online, and that is terrific, but I am wondering why the survey information has not been uploaded in relation to sightings of Leadbeater’s possums in the Central Highlands.

Mr SPENCER — There is no particular reason, and there is certainly no intent to hide our information. The information, when we do identify Leadbeater’s, is put to the department and incorporated into the endangered species records, like all other surveys. I guess we could always provide more information on our website, as people request it, but certainly there is no hiding of the information that we collect.

Ms DUNN — Perhaps that is something you would consider doing.

Mr SPENCER — Certainly.

Mr TRUSHELL — Yes, and it is certainly something we have considered. We have done it in the past at the request of community members.

Ms DUNN — Terrific. That is good to know. You probably will have to take this question on notice: in terms of the coupes on the timber release plan, I am interested to know which of those coupes are going to be logged within the next six months and in which month will logging commence in each of those coupes? I am not sure you will actually have that information.

Mr TRUSHELL — I am not sure you would like us to work through that right now.

Ms DUNN — I am not sure my committee colleagues would like you to reel all that off right now.

Mr TRUSHELL — That’s right!

Mr SPENCER — In relation to the schedule, the schedule is online. It does not provide an exact month because, as you would be aware, seasonality, discovery of Leadbeater’s and other things change the schedule. So the list of coupes we intend to harvest and the season — be it spring, summer or autumn — are listed on the website, and certainly for anyone who inquires about particular coupes we provide that information as a matter of course.

Ms DUNN — I think it is probably fair to say that there are some community members who, I think, have a level of frustration, because although the timber release plan is a rolling plan, if you like, the scope of it, because it is so broad in terms of three years, does not particularly provide any great guidance to them. Do you think

there would be any consideration of even narrowing down that timescale so community members get a better chance of understanding the rollout of harvesting?

Mr SPENCER — As I said, what is on our website is the narrowed down, 18-month schedule. In addition to the timber release plan, which you correctly note has substantially more coupes on its list, the particular coupes scheduled in the coming 18 months are publicly available.

Ms DUNN — Have you ever given any consideration to publishing specific forest coupe plans on your website? It is my understanding that that is what happens with your counterparts in New South Wales and Tasmania.

Mr SPENCER — We have considered it. Regarding the information we provide on the website in regard to mapping, there is always a question of the detail that is provided to give ease of understanding what we are and then providing too much and providing complexity. Certainly we provide coupe plans for particular coupes for any members of the public that ask for them. We can take it on notice that we consider the placement of coupe plans on the website, but we do not currently do that, no.

Ms DUNN — Terrific. Thank you. We have heard evidence from a couple of different witnesses as part of this inquiry around payments made to Australian Paper. Are you aware of any of the details of those payments or, I guess, the structure around those payments to Australian Paper?

Mr TRUSHELL — So that is —

Ms DUNN — It is payments from government to Australian Paper.

Mr TRUSHELL — I assume the question relates to the legislated supply agreement. That is a matter for the Secretary of the Department of Economic Development, Jobs, Transport and Resources. We act effectively as an agent in that supply arrangement, so that would be a question best directed to them.

Ms DUNN — And it was. I was just wondering if you knew anything.

Mr TRUSHELL — No. We do not administer any penalty payments or the like.

Ms DUNN — Yes, that is outside the scope of what you do. In terms of that legislated supply agreement, I guess there is a nexus between the amount of sawlog that has to be logged, because there is a nexus between the amount of residual waste and pulp log — they are intrinsically linked together; you kind of cannot have one without the other. Is that correct?

Mr TRUSHELL — Yes.

Ms DUNN — So in terms of when you are modelling wood supply, that legislated supply agreement pretty much anchors the amount that you have to log because of that intrinsic link to sawlog. Is that —

Mr TRUSHELL — It is a factor in the modelling, but it is not the key driver. I guess the question points towards: if we reduce our sawlog harvest levels, how do we supply the same level —

Ms DUNN — Yes, what happens with the pulp?

Mr TRUSHELL — Yes. I thought that was where the question may have been leading. Certainly we are very mindful of that. In the past we have had excess pulp log outside of the typical supply area for Australian Paper, which we have supplied to export woodchip companies. It is unlikely we will do that in the future, so that will be redirected towards Australian Paper. We are hoping to undertake some thinnings to augment supply to Australian Paper and looking at other options where we may substitute mixed species or go further afield to pick up that timber. Certainly it is a very live issue for us. It is something that we are working to address at the moment, and there are options — and certainly increased utilisation, where we have not had markets before, so where we have left residual material on the ground.

Ms DUNN — Because you have got a declining resource in sawlog and you have got a legislated agreement that locks in place a figure — so you have got to turn to these other places for pulp supply — does that create

any penalties that need to be paid, because those other sources are coming from an area outside of the forest area within the wood pulp agreement act?

Mr TRUSHELL — Yes, it certainly makes it more expensive — you know, the transport distance is further. But again that is a matter for the department under the legislation or the legislated supply agreement.

Ms DUNN — At one stage there was a briefing made for the former Treasurer in the former government that talked about a price cap for Australian Paper as part of a negotiation. Is that price cap for Australian Paper still in place?

Mr TRUSHELL — I will take that on notice. I think that I have heard the term before. In terms of our pricing negotiations under the legislated agreement we did have an expert determination, which is a mechanism under the legislation around pricing, which we settled some years back. So the moment that established the benchmark price that price is indexed forward. If there is a price cap in existence, it has not come into play from our commercial dealings with Australian Paper.

Ms DUNN — Because it was my understanding that it actually came about in relation to a disputed charge between VicForests and Australian Paper at the time, to put a bit of context and history around that, and that it goes back to 2012–13.

Mr TRUSHELL — Yes, it was a few years ago. I would have to take that on notice. It has not come into play if there is one in existence, but I would have to take it on notice.

Ms DUNN — Sure. That is not a problem at all.

Mr O'SULLIVAN — Thank you, gentlemen, for coming in and having a chat to us again tonight. I just want to ask some questions about the viability of VicForests in terms of the current scenario that you find yourselves in. Back in 2005 you were involved in a court case with MyEnvironment. After that court case concluded, VicForests won the court case and MyEnvironment was ordered to pay costs of \$1.2 million to you guys. Has that money been paid at this point?

Mr TRUSHELL — I think it was 2015.

Mr O'SULLIVAN — Sorry, 2015. That is what I meant to say.

Mr TRUSHELL — Yes, that is right. No, the money has not been paid.

Mr O'SULLIVAN — Why has it not be paid?

Mr TRUSHELL — We have corresponded, but I think they would have trouble generating that sort of money. It is a significant amount.

Mr O'SULLIVAN — Have you been given any sort of instruction by government in terms of whether you should pursue that money or not, because I would imagine your balance sheet would be fairly tight and that \$1.2 million would be fairly valuable to your finances?

Mr TRUSHELL — No, we have not had any direction from government. It is a matter for VicForests and between VicForests and MyEnvironment.

Mr O'SULLIVAN — Are you going to drop the chase for that money? Do you think you will get that money at all, and have you factored it into your forward estimates in terms of revenue? Well, I guess it is not revenue; it is costs.

Mr SPENCER — I do not think we would characterise it as a chase for money. It was a court order that stands for costs — that we are not actively pursuing, though. As per the court order, it stands for the period that it is in place.

Mr O'SULLIVAN — Why are you not actively pursuing \$1.2 million?

Mr SPENCER — In the end the pursuit of payments and legal action is a commercial decision made by the board, weighing up the prospects of success and the cost of pursuit.

Mr O'SULLIVAN — Have you asked for any assistance from government in terms of pursuing that money?

Mr TRUSHELL — No, we have not.

Mr O'SULLIVAN — Okay. I will move on. In terms of the RFAs, which we have heard a bit about tonight, and in terms of the impacts that they are going to have when they are renewed or come up for review, do you see any sort of impacts that could apply in a negative sense, or a positive sense, for the timber industry as a result of those reviews coming through?

Mr TRUSHELL — Sorry, which review?

Mr O'SULLIVAN — The RFAs — regional forestry agreements.

Mr TRUSHELL — As the former presenter said, it is a matter between the state and the commonwealth. It is not something that VicForests drives. RFAs have been a critical component to providing structure and providing a balance between conservation, other forest uses and the timber industry. It is certainly a mechanism that intends to provide some certainty for timber supply going forward. I think in the absence of RFAs things would be very difficult from the perspective that the two bits of commonwealth legislation, around the EPBC act and the export licences regulations, you know, would be very problematic if we did not have RFAs or an alternative mechanism in place.

Mr O'SULLIVAN — Just one further one. We have heard evidence today that, in terms of the 200-metre radius in terms of the Leadbeater's possum coupes, maybe the 200 metres is a bit crude in terms of the best way to protect a particular colony of Leadbeater's possums and maybe a targeted approach would be a better scenario, particularly now that we have reached the 200 coupes — whether it kicked off the review that we have — and we are now up to, I think it says on your website, 645 coupes that have been identified. Do you think there is a better, targeted approach through the use of professional loggers and professional foresters in terms of being able to establish what the best way is to actually protect a colony of Leadbeater's possums?

Mr TRUSHELL — I think in an ecological sense circles are simple to put in but they possibly do not provide the best ecological outcomes for the species. But that is the system we have got in place at the moment, and that is the one we need to work around.

Mr LEANE — Thanks again for coming. You mentioned that since you last appeared you released the new resource outlook. How often does VicForests do that process?

Mr TRUSHELL — Typically we update that annually based on any new information. That will include things like new reserves that are being created, new information that we have and improvements to the modelling process that we are doing.

Mr LEANE — Could you give us a brief precis of what may have changed since the last resource outlook that you did?

Mr TRUSHELL — Yes. It is consistent with the previous evidence that we provided. The key feature of the resource outlook is confirming a reduction from 220 000 cubic metres of D-plus ash sawlog supply per annum down to, for the next three years, 153 000 per annum and then, following that, 130 000 cubic metres per annum.

Mr LEANE — You mentioned, I think in response to one of the questions from Ms Dunn, around there was a certain factor to the modelling. Sorry if I am verballing you or getting that wrong. I understand you would have to put inputs to be used into a model to come to the available resource, so there are a number of different inputs. Could you go through some of those inputs?

Mr TRUSHELL — Just so we understand what the process is, effectively we need a description of the forest, so we need to understand what is there now. We have a whole range of functions which show how the forest grows into the future. Then we need to overlay a whole range of constraints. They may be operational constraints or predictions about what may occur in the future. That is certainly a difference we have done in this modelling process by forecasting a detection rate of Leadbeater's possums over the next seven years. Ultimately that provides the platform to be able to determine what our annual yields of sawlogs will be.

Mr LEANE — You do operate in a way that the forest industry into the future would be an indefinite industry. Is that correct? Is that the way you plan into the future?

Mr TRUSHELL — That is right. At the moment we look at a 100-year horizon, so we are trying to cover a full rotation of the forest. Then in our resource output, typically we take a 20-year period ahead out of that 100-year long-term model.

Mr LEANE — What is important about having that 100-year long-term projection?

Mr TRUSHELL — So we cover a full rotation for any particular stand. Forests are in a range of different age classes across the forest estate, so we have forests that are one year old and we have got forests that are 100 years old. What we need to do is understand the dynamics and how the forest changes over time. That is the importance of that. It is also around long-term sustainability, which is a key function of the regulatory framework we operate under, under the legislation we operate under.

Mr LEANE — So that operates mainly around VicForests' regrowth harvest? Is that correct?

Mr TRUSHELL — Yes. The vast majority of what we harvest is regrowth. There are small areas of old-growth forest in East Gippsland that we harvest.

Mr SPENCER — I think it is also important to note that across that time horizon VicForests' modelling does not set a single harvest level in perpetuity. The harvest level will go up and down. Our models try and limit that variation. Large events, like the 1939 fires and the 2009 fires, make that smoothing challenging, but we are trying to grow the standing volume over the period of time so that it continues. It fluctuates, but it is still sustainable within a reasonable envelope.

Mr BOURMAN — Thanks for coming in again, guys, for a late one. During the journey that this inquiry has been on we have had our terms of reference, (a) to (e), and a lot of it was about the practices of VicForests, of which we have heard a bit; it seems to be like every other organisation — it has its ups and downs, disputes with customers and whatever. But the main thing we always seem to come back to as a committee is the supply level of commercial timber. One thing that has become apparent to me — and I am going to make statement, and it is up to you guys whether you want to comment or not — is that VicForests is at the end of a flow chart, and immediately above it is a government department that tells you how much timber you can have, and that government department is subject to policy changes. Is that an accurate understanding?

Mr TRUSHELL — Conceptually it is right. We get allocated an area of forest which we use as the basis of our long-term modelling, but we know that policy decisions can be made, and it is almost impossible to predict what they may do. We try to use the best information, but that certainly can happen. That has been a pattern that has occurred over, I guess, a fairly long period of time, where the resource base has eroded through additions to the resource — we have had fires; we have had a whole range — so we try to adapt to that. What we try to do, certainly with industry, is manage that in a transitional way. We try to avoid big shocks in doing that. Unfortunately in the last 12 months we have seen a pretty significant shock. We recognise that, but it is something we have had to deal with to ensure we minimise disruption right across the industry.

Mr BOURMAN — VicForests gets told what you have got to work with. That is the bottom line.

Mr SPENCER — I would note that historically, when VicForests was originally created, the forest modelling was done within the department that is now DELWP, and that had inputs and constraints within industry about the capacity to move across the landscape and the capacity to source wood elsewhere. VicForests, having that in-house, now works with industry to extract — by maintaining the environmental side and maintaining the policy of the day — the best balance so that industry can, admittedly, at the moment transition down. But it is definitely more commercial and more collaborative with industry about how we work within the policy settings, and that is what is really important about VicForests' resource outlook. I agree we are given the policy settings to work within, but there are avenues and options within to get movement within log grades or within areas and within geography, and I guess we would say we have done quite well to meet the joint aims of policy, being environmental or industry.

Mr BOURMAN — Please do not take it as a criticism. It was actually recognising that you guys have actually got a hard gig to try and please everybody. Anyway, that is it.

The CHAIR — Gentlemen, thank you very much for coming in this evening. We do appreciate your contribution very much indeed. You will receive a transcript, as I am sure you are aware, in the next week or so. If you could just proofread that and get back to us if there is any problems, that would be marvellous. We thank you so much again for assisting us tonight.

Mr SPENCER — Chairman, just before we conclude I can pass up a question we were given on notice regarding logs being put into an export facility claimed to be sawlogs. I guess to the extent that we can interpret the photo for defects as to why they may be E-grade logs, we have done that and put it on a picture. I will pass that around for you all through the Chair.

The CHAIR — That would be great. Thank you very much, and thank you to members of the gallery. The hearing now stands adjourned.

Witnesses withdrew.