

Forest Products Commission —

Mr V.A. Catania, Chairman.

Mr D.T. Redman, Minister for Forestry.

Dr P.H. Biggs, General Manager.

Mr S. Melville, Executive Director, Corporate Services.

The CHAIRMAN: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be published by 9.00 am tomorrow. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chairman to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 5 June 2009 so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers and accordingly I ask the ministers to cooperate with those requirements.

I caution members that if the minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the minister agrees to provide will be sought by Friday, 5 June 2009. It will also greatly assist Hansard if when referring to the program statements volumes or the consolidated account estimates, members give the page number, item, program and amount in preface to their question. I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: I call the member for Collie-Preston.

Mr M.P. MURRAY: With all due respect, I must comment on the lack of information on the quite important issue of the Forest Products Commission's asset investment program. There seems to be very little information—just mention of computers, plant and equipment. I am a bit concerned about that. That is the comment I make first-up.

Mr D.T. REDMAN: Dr Paul Biggs may want to make a comment, but it is pretty consistent with what government trading enterprises have. I ask Dr Biggs to comment on what is presented in the budget papers.

Dr P.H. Biggs: The Forest Products Commission is required to submit a statement of corporate intent and a strategic development plan. That is under the Forest Products Act. Those are tabled in Parliament once approved by the minister, with the concurrence of the Treasurer. The only line items, therefore, that appear in the budget papers are those relating to capital works expenditure and community service obligations.

Mr D.T. REDMAN: That is consistent with what happened in the past.

Mr F.A. ALBAN: I refer to the bottom of page 494 of the *Budget Statements*. The second last line relates to the Forest Products Commission. It shows the expected dividend to the government from the FPC. What are the implications for the FPC and the native forest industry from the restructuring of that industry?

Mr D.T. REDMAN: I say right from the outset that the forecast decline in FPC's profits is not related to structural issues within the native forest industry. The FPC undertakes a range of activities. I just make that distinction. All segments of the FPC business have experienced reduced revenues. That is a product of the times we find ourselves in with the global financial crisis. Any other government trading enterprise that has activities that respond to the world financial climate will find itself in the same situation. FPC forecasts an operating profit for its native forest segment for 2009-10. The government is committed to working with the native forest industry to improve its long-term sustainability. I have had a number of meetings with those groups. Members will recall that in early February the native forest industry came to us with a proposal to support some restructure. It is a legacy that we have had to bear from the last government, given that more than \$160 million was put into the restructure of the native forest industry following the banning of old-growth logging. That has not yet got to a position at which industry can tell us that it is in a good, stable position. We have had a number of discussions. We do not support the notion of buying out any allocation in terms of further government restructure. Indeed, the last government was presented with that option and did not support it either. We are working very closely with those industry players to ensure that, in any settings that we have some control over, we can build efficiencies with the arrangement that those players have with the FPC. I support a sustainable

native harvest timber industry in Western Australia. A significant number of jobs in those regions come from that industry. We are certainly committed to ensuring that we get the best arrangements between them and the FPC to ensure that their businesses are viable going forward.

Mr F.A. ALBAN: To what extent is the FPC's forecast of improving profits for 2011-12 due to the likely impact of Australia's commitments to greenhouse gas reduction on forestry and on the FPC?

[3.40 pm]

Mr D.T. REDMAN: The Forest Products Commission is actively promoting its capability with respect to planting trees for carbon sequestration. In my first stage of becoming a minister I went to an opening at which arrangements between FPC and Synergy with respect to carbon plantings were presented. FPC as a service provider was doing a lot of work identifying suitable sites at which it could provide that service to Synergy. This winter the FPC will plant some 5 000 hectares of trees on WA farms for Synergy, extending to that next step. It is anticipated that those trees will sequester about 1.5 million tonnes of carbon dioxide over 30 years and offset emissions in Western Australia. Some of the signals are yet to come over the hill at us in relation to those settings for the carbon pollution reduction scheme. That will help identify for both the FPC and any other agencies their response in terms of their activities. Forestry will benefit from the agreement by the Council of Australian Governments to expand renewable energy targets. As a minimum, wood residues will be used to generate renewable energy, such as in the proposed biomass power station near Manjimup, which is in my electorate. The member would be familiar with that area. A number of those things are still to fall out in respect of those federal signals. The Forest Products Commission is well placed to be a service provider and to provide support for some of those activities in Western Australia. I highlight that a lot of the agency's activities provide strong peripheral benefits for not only carbon sequestration, but also salinity, waterlogging and rising watertables. That might be seen as a side issue to the commission's activities, but they are benefits that we must assess and measure when running a ruler over the FPC.

Mr P.T. MILES: Page 231 of budget paper No 3 states that the Forest Products Commission has received a \$15.1 million capital contribution in the 2009-10 budget. Can the minister explain how this will be used to assist the FPC to meet the impacts that the Yanchep and Bridgetown wildfires and the gas crisis have had on the mature plantation business, and what impacts those events will have on the finances and operations of the future wood supply?

The CHAIRMAN: Given that we do not have much time for this session, I ask the minister to be quite brief.

Mr D.T. REDMAN: I will make some brief comments and then Dr Paul Biggs might wish to make some additional comments. I highlight that the collective issues of the Varanus Island explosion and the fires in Yanchep and Bridgetown have had a substantial impact on the Forest Products Commission's activities. There has been a significant response to some of the fires. I will not go into them in detail, but Dr Biggs might comment on some of the challenges faced by the areas that were affected, on the recovery of some of the materials from those areas and also on the cost of recovery. In response to those issues, it was necessary for the government to maintain the FPC's cash flow and to give it an injection of capital. That has been provided to the tune of \$15 million. As the member can imagine, the FPC is self-insuring. Therefore, to take a hit like that meant that it had some cash flow issues. I have not seen any major issues regarding the core business environment in which the FPC operates. They are the specific challenges that the FPC has had to respond to. When fires go through a plantation, in some cases the timber cannot be used and there is only a small window of opportunity to use other types of timber. In some cases, the FPC has had to give priority to private owners to use the mills. That was done to support the industry in an indirect way. Having flown over those fires and having seen their impact, I know that it is quite substantial. The injection of \$15 million has been necessary to maintain the cash flow arrangements.

Mr C.J. TALLENTIRE: Given that on page 495 of volume 2 of the *Budget Statements* the revenue stream projected across the next four financial years appears to be zero, and given also the claims in the Forest Products Commission's annual reports that the value of the forest asset is \$117 million, why are we not seeing a return, and what estimates does the minister place on the value of a log in the forest, as opposed to one that has been given to a milling firm?

Dr P.H. Biggs: This line item refers to the income tax equivalent regime. The profits that are made out of the log sales business during this period are consumed by the investment in new plantations, which incurs a tax deduction. As a result, we have a zero taxation requirement. That is done for the long-term benefit of the industry. This is an investment in new plantations and in the future timber supply for Western Australia. Regarding the valuation of logs at the stump and those that are delivered to a mill, there is a general principle whereby the pricing of the logs and the stumpage of logs is based on the cost of growing, to make sure that the revenue that is received for the sale covers the cost of growing the forest or plantation. A range of prices, depending on the grade of log, reflect the market. Obviously, the more valuable products have a higher price and

the lesser-valued products get a lower market price. Based on that range, we can meet the cost of growing timber. There is an additional cost for the harvesting and delivery of the logs, and the mill gate price is the combination of those three factors: stumpage, harvesting and delivery. The value to the sawmiller then depends on what the timber is used for.

Mr C.J. TALLENTIRE: I seek some clarification that the current value of the forest is in the region of \$117 million. What verification processes are in place to confirm that value?

Dr P.H. Biggs: The asset valuation is based on the discounted cash flow that is forecast to come from a particular forest resource or plantation. That is based on the inventory forecast of the wood flow that comes out of each forest. It is audited by our external auditors—the Office of the Auditor General for Western Australia—and the cost of capital, which varies from year to year depending on the bank interest rates and the market capital interest rates, means that there is quite a fluctuation in the asset valuation from year to year. Scrutiny is provided each year by the full audit of the annual accounts.

Mr C.J. TALLENTIRE: I understand that the role of the Auditor General is to audit the accounts, but the Auditor General would not pretend to have the technical expertise to verify the actual value of the standing timber. Is not an independent expert body with that expertise called in to verify the asset valuation?

Dr P.H. Biggs: That is correct. In the past, the Auditor General has used, and in the future will frequently use, the services of an independent forester who conducts a sample audit of the physical asset, and then the financial auditors assess the accounting calculations.

Mr M.P. MURRAY: The next budget is a long time away, but can the line items that are buried in other areas be included in the Forest Products Commission's sheet? It would be fair for not only the politicians who read the budget, but also the general public for those items to be under the heading of the Forest Products Commission.

Mr D.T. REDMAN: I do not have an answer to that, other than to say that what is in this budget reflects past practice. This is not a new practice that we have put in place.

Mr M.P. MURRAY: There is a line item about income tax equivalent regimes under dividends and government enterprises. That should be on that page as well. Why does the minister say that the FPC is an enterprise? Surely an enterprise should have the full details on that page.

Mr D.T. REDMAN: The member is talking about the standard practice in the preparation of the budget papers. It is not something that I am in control of. I imagine that any member of Parliament can make a submission to improve the reporting process. What is in this budget is no different from when the member was in government.

Mr M.P. MURRAY: That is fine, but do not forget what has been said before. The minister is the government and I am asking the question.

Mr D.T. REDMAN: I am sure that some people have a range of questions about the presentation of the budget.

Mr M.P. MURRAY: In all honesty, not many other departments have a half-page report for a multimillion-dollar business.

[3.50 pm]

Mr D.T. REDMAN: Most of the other trading enterprises, including Verve, Synergy and Western Power, have very similar arrangements in the presentation of the budget papers. It is a good question for those enterprises as well.

Mr P.T. MILES: In reference to an answer that the minister gave to the member for Swan Hills earlier, on page 494 the income of the Forest Products Commission for the government is shown. In my electorate, a new biomass reactor is being installed at Neerabup. I understand that it will take much of the undergrowth and waste wood from the pine plantations. Can the minister indicate how much income that will generate, and how it will be managed?

Mr D.T. REDMAN: I thank the member for the question. The FPC's pine plantations play a key role in achieving a balance between water management and wood supply, particularly in regard to the Gngangara mound. There is a challenge there, and the FPC has been involved with the Gngangara sustainability strategy since its inception. Plantations are only part of the water use regime in that area. Removal of the pines, as I understand, could deliver an extra 25 gigalitres of water to the Gngangara system. I will ask Dr Paul Biggs to speak about the impact and the challenges of utilising that harvest to the benefit of the FPC.

Dr P.H. Biggs: Using biofuels for energy presents a fantastic opportunity for achieving both commercial outcomes and the water management outcomes for a place like Gngangara. A characteristic of a plantation or forest is that only certain parts are suitable for sawmilling, and substantial wood fibre is left behind. Being able to use this quantity of that residue in the power station allows us to get all of that material off the water mound,

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assist with the control of nutrient flow through the sand aquifers and return those sites to some future land use at zero cost, or return a small profit to the government.

Mr D.T. REDMAN: Biomass power generation is one of the big opportunities that we have not fully utilised in Western Australia. We have a range of plantations and access to residual material that could well be used to fire those plans and deal with some of the generation issues. This is a renewable generation challenge for the government.

Mr M.P. MURRAY: I will quickly follow up on a comment the minister made about Verve Energy and other enterprises. They certainly do have the figures on their pages in the *Budget Statements*. I am holding it up so that the minister can see. I do not see that it would be out of order to have that done for the Forest Products Commission. Western Power, Synergy and Horizon Power all have the budget items on their pages.

Mr D.T. REDMAN: I am happy to have a look at the arrangements. I know that when I was sitting where the member for Collie-Preston is now sitting, and researching some of the other government trading enterprises, I had to go to some of the other areas to pick up some of the community service obligations. It was necessary to search through quite a few papers to get some of the information about those, even the organisations the member has referred to. I am happy to have a look at the presentation arrangements that we have. If the member wants to put something in writing to us, I am happy to take it on board and see whether there is capacity to make some improvements.

Mr I.C. BLAYNEY: I refer to page 282 of the *Economic and Fiscal Outlook*, which shows that the Forest Products Commission is to receive a \$2.3 million per annum community service obligation payment to service debt on non-commercial plantations. Is this part of a wider program of developing commercial tree plantings that remediate dryland salinity and improve water quality?

Mr D.T. REDMAN: The \$2.3 million per annum relates to the state's contribution to the National Action Plan for Salinity and Water Quality. The payment to the FPC is part of the cost of servicing long-term debt used to fund the state's contribution to that. I toured recently throughout areas of the great southern and looked at the strategic tree farming initiative that was put in place by the previous government. A lot of effort has been put in and supported by the government. We have some challenges in continuing what we would like to see as the annual area allocated to the strategic tree farming initiative. Some excellent work has been done to put in place future saw log opportunities from areas that otherwise might yield poorly for traditional agricultural activities. There is a strong desire to integrate those opportunities into the normal farming regime. In doing so, in some cases not only do we enhance our capacity for normal agricultural production, but we also deal with those issues of salinity and water-logging that are challenges in the slightly higher rainfall areas of the wheatbelt. Of course, there is an asset growing out there now that we would like to see continued, building annually to ensure that, down the track when those assets get to the point of harvest, there is a business there that can support a milling operation by someone who wants to harvest it and put it into the marketplace. It is a great initiative, but there are some challenges in maintaining its continuity. There is always a bit of a buffer in difficult times, but I am committed to seeing this proceed. The benefits go well beyond the available timber in that resource, to those other peripheral land degradation issues.

Mr C.J. TALLENTIRE: Given the recent collapse of certain plantation timber companies, what capacity exists within the Forest Products Commission to acquire those remaining assets and ensure that landholders continue to receive a revenue stream from their assets? I refer to the allocation for business expansion.

Mr D.T. REDMAN: I will take the question with its full breadth. I am a little cautious to comment on the challenges faced by Great Southern and Timbercorp at the moment, with those companies being in administration and receivership. We are keeping a very close eye on that. We have had some difficulty in making contact with the receivers in the case of Great Southern. I think there is a creditors meeting in the eastern states either today or tomorrow. From our perspective, it is a bit of a watching brief. I am fully aware of the potential impact that the collapse of those industries would have on contractors and a whole range of activities that happen in those regions, and the people employed within those areas. I am cautious about commenting, because it is a commercial activity, and commercial processes are now in play to respond to the creditors. We are watching the situation very closely, and having close discussions about what, if any, response the government can make, as we have done with other industries that have seen some challenges in this economic climate, to try to cushion the community impact of people losing their jobs, and likewise to try to maintain those businesses in regional Western Australia.

Mr C.J. TALLENTIRE: Are there opportunities for FPC staff to be deployed into other plantations, should they become available?

Mr D.T. REDMAN: I would have thought not, but we are having a close look at what is happening. Decisions are being made on a daily basis about the activities of those two businesses. At this point it is a watching brief from the government's perspective. We are having a number of discussions about how we might respond. I am

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very cautious about whether FPC has any capacity at all to fill the gap of maintaining the 80 000 to 90 000 hectares of plantations Great Southern has, if the company were to fall over. There is a complexity in these managed investment schemes that goes beyond what we see in a one or two-paragraph statement in the newspaper. This is a challenge for the people who are faced with sorting out the business issue for the creditors' benefit.

[4.00 pm]