

Forest Products Commission -

Mr M.J. Cowper, Chairman.

Mr M.P. Whitely, Parliamentary Secretary.

Dr P.H. Biggs, General Manager.

Mr S. Melville, Executive Manager Finance and Administration.

Mr T. Jupp, Principal Policy Adviser, Office of the Minister for Forestry.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 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 parliamentary secretary 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 parliamentary secretary 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 parliamentary secretary's cooperation in ensuring that it is delivered to the committee clerk by 8 June 2007, 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 parliamentary secretary to cooperate with those requirements.

I caution members that if the parliamentary secretary 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 parliamentary secretary agrees to provide will be sought by 8 June 2007.

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.

Mr D.T. REDMAN: I refer the parliamentary secretary to page 303. Interestingly enough, that is the only page. I will use the first paragraph as the lead-in. It states -

The Commission's principal investments include the regeneration of approximately 20,000 hectares of jarrah forest, approximately 650 hectares of karri forest . . .

Obviously, a big part of the role of the commission is providing native forest timbers to private organisations to value add. A couple of the pressure points that are showing up in the industry at the moment are the provision of quality logs to those organisations and the fact that the industry is having difficulty getting the yields that it might have otherwise anticipated from that. I am interested in what the commission is doing to respond to those issues in the industry to help secure the longevity of those industries in the south west.

Mr M.P. WHITELEY: I am aware that we are in a period of transition. In fact, as would be expected in any period of transition, unforeseen issues have arisen.

Mr P.D. OMODEI: What do you mean by "a period of transition"?

Mr M.P. WHITELEY: The industry has been faced with a number of problems, I guess, that were not forecast. Some of them are not peculiar to the forest industry, such as increasing fuel and labour costs and the appreciation of the dollar, which has made our exports less attractive. As the member alluded to, we have reduced recovery rates from sawlogs. The government has been working with industry to analyse the available resource to finetune how resources are recovered. The minister is currently working with the Forest Products Commission and the Department of Environment and Conservation to look at perhaps finetuning forestry practices. I am aware that the issue of habitat trees is being looked at to see whether some adjustments can be made to perhaps recover a more mature resource, while still protecting habitat and biodiversity. I am also aware that the Forest Products Commission is working quite aggressively to optimise its opportunities to take logs out of the forest in the winter and spring periods. I will invite Dr Biggs to add to the answer.

Dr P.H. Biggs: I think the parliamentary secretary has covered the major issues. I think there is definitely a period of structural adjustment as we move from an industry that was based on cutting large logs from old-

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growth forests to one that can operate viably and economically on regrowth forests. Some of the participants in the industry have been able to do that successfully, and some are still struggling with that investment. Within the scope of the Forest Products Commission, we are working to get the best logs we can, as efficiently and effectively as we can, out of the available forest, and to deliver them to the sawmills. Across government, the minister is working with industry to try to complete the restructuring of the timber industry, which will set it on a sound footing with the regrowth resource of the future.

[3.40 pm]

Mr D.T. REDMAN: I have a further question. Are the minister and the parliamentary secretary aware that one private operator, which employs a significant number of staff, has indicated serious concerns about its capacity as an ongoing concern from a business perspective? Given the government's support for the adjustment program over the past number of years, I would have thought it would be a significant concern to the government if at this time something like this fell over. Perhaps it is appropriate to have a level of support and commitment to ensure that it does not happen.

Mr M.P. WHITELEY: Could the member be more specific? Is he alluding to one particular operator, or was "one" a generic term?

Mr D.T. REDMAN: No. I would prefer not to put the name of the company on the record, but I would be happy to talk to the parliamentary secretary later.

Mr M.P. WHITELEY: I might ask Dr Biggs to respond.

Dr P.H. Biggs: Without being specific about individual companies and perhaps adding to my previous reply, different business goals are being pursued by different companies. Some have indicated that they would like access to an additional resource that would improve throughput for their given mill capacity, and we are working with those companies on a mix of the different species that are available to us under the annual cut. Other companies are focusing on the recovery rates that can be achieved out of the mix of sawlogs, particularly the smaller diameter sawlogs that come out of the regrowth forest, and the difficult economic conditions that they now face in being able to justify capital investment for new sawmill technology. We are encouraged by the technical success that the new small log line at Greenbushes has had in processing small logs. The issue there is how to assist it so that it can stack up economically to justify further investment of that type. We are also encouraged by the proposal for Lignor to develop a strand bumper plant down at Mt Barker, which can again process small log material into structural grade timber for which there is demand across Australia and also for export. Those are the types of initiatives that will set up the industry for the future. As long as we can create the conditions in which capital investment is worthwhile, those are the types of things that the government is looking at and to which the Forest Products Commission will contribute.

Mr M.P. WHITELEY: I add that the performance of existing players is mixed; there is no question about that. There are success stories out there. I visited Inglewood Products Group last week. It has a joinery and outdoor furniture and furniture components manufacturing facility in Malaga. It has vertically integrated with a sawmill at Mundijong which I think has a capacity of 4 000 cubic metres a year. It is not a big player but it is very innovative and has put a lot of money into equipment. It is contemplating moving from Malaga to Mundijong to have the facility all on one site. It is doing things such as using technology to cut timber in a different way; for instance, it is cutting in the grain of the timber for chair backs. I cannot think of a better way of explaining it. Rather than fight the timber and bend it into shape, it uses parts of logs that would otherwise be unused. It is also using what is called feature-grade timber rather than relying on premium-grade timber, and it is actually developing new markets. It therefore has an advantage, as it has a degree of vertical integration with the mill cuts being made to the requirements of the joinery and it is doing innovative things in joinery that other companies are not doing. That company seems to be doing quite well, but there is no question that the performance of companies is variable.

Mr P.D. OMODEI: The most significant thing about this budget item is its lack of detail. There is nothing about major policy decisions, major initiatives or significant issues and trends, as there are in other budgetary papers. There are significant problems with the timber industry in Western Australia, as the parliamentary secretary well knows. I am prepared to put the name of a company in my question. Is the parliamentary secretary aware that Northcliffe Timber Cluster will go into voluntary liquidation within the next 10 days because of the current shortage of logs, the failure of some contracts associated with other companies and the failure of some of its commitments to both the Department of Industry and Resources and the Forest Products Commission? A dozen jobs will be lost, which will have a significant economic impact on Northcliffe. Is the government prepared to assist the cluster by providing further logs, either third-grade logs or pine logs, to allow the company to continue to trade?

Mr M.P. WHITELEY: The simple answer to the member's question is no, I am not aware of it, but I am happy to pass on the information.

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Mr P.D. OMODEI: Can the parliamentary secretary ask the general manager whether he is aware?

Mr M.P. WHITELEY: I will ask Dr Biggs to respond but I do not think he has anything to add.

Dr P.H. Biggs: I am not aware of any formal liquidation steps; they have not been advised to me. We are aware that Northcliffe Timber Cluster had access to some small volumes. It did not win a major contract when the jarrah or karri sawlogs were allocated. We have endeavoured to support it with third-grade logs that are available, but I cannot add anything to the question of its financial viability.

Mr P.D. OMODEI: I have a further question along the same lines. At the moment in Western Australia it is well known within the industry that there is a great deal of difficulty in achieving the 131 000 cubic metres of first-grade and second-grade jarrah that was committed under the last forest management plan. There is nothing in any budget that I can see, whether it be the Department of Environment and Conservation's budget or any other budget, for assisting the actual yield in the rolling management plan for the next three years. I understand that the 131 000 cubic metres will diminish to as low as 90 000 cubic metres. It is well known in the Forest Products Commission, it was well known at the last timber industry conference and the federal minister is aware that there is nothing in any of the budgets for any kind of compensation to assist with structural changes to the timber industry in WA. I know that there have been reviews of recoveries from coupes; there is the issue of habitat trees, which the parliamentary secretary mentioned; and there is the issue just in today's newspaper of a decision made by the Department of Environment and Conservation to stop logging Ellis Creek because it was deemed that there was some old-growth forest in that area. What plans does the government have to assist the industry, given the problems that are already occurring? I think Northcliffe is just one of a number of mills that could be in trouble. What action does the government intend to take?

Mr M.P. WHITELEY: I acknowledge, as the minister has, that there are some difficulties in extracting volumes of logs from the coupes that are made available for logging. As I mentioned before, there is a cooperative approach being taken to try to maximise the amount that can be extracted. The government is looking at ways of selecting habitat trees that will provide the necessary habitat values and at the same time optimise production, which effectively means extracting trees with a greater potential to return a resource. The government is also engaging independent consultants to advise on improvements in logistical issues to try to speed up the approvals process. As I said before, the Forest Products Commission and the Department of Environment and Conservation are working collaboratively to maximise the opportunity for extraction in the winter-spring period. It has generally been progressing well although, as the member highlighted, that is with the exception of Ellis Creek, which has been delayed due to old-growth assessments. The plan that is being developed is more aggressive in terms of extraction. The average winter production will be lifted from 150 to 300 tonnes a day. The intention over the winter-spring period is to make more use of mine sites. It is anticipated that 12 000 tonnes of 25 000 tonnes will be extracted from mine sites over that period. The immediate approach is to ensure access to resources. Any problems that arise will be addressed accordingly.

[3.50 pm]

Mr P.D. OMODEI: Only a week or so ago, it was announced that the Lignor Strand lumber plant in Albany had managed to secure 90 000 cubic metres of karri thinnings for its project. Can the parliamentary secretary explain how that will affect the viability of the Diamond Mill? If nearly 100 000 cubic metres is taken from that area and placed into an area that is a fair way away, there will be significant impacts, particularly on transporting the product along Muirs Highway or South West Highway.

Mr M.P. WHITELEY: I am struggling to make a connection between what the member asked and the budget. I cannot answer the question. I invite Dr Biggs to comment.

Dr P.H. Biggs: We have been in discussion with WA Plantation Resources, which currently purchases that karri woodchip. We have been advised that if the Lignor proposal proceeds, we would negotiate a two-year period with WAPRES to redirect that karri resource for value-added processing within Western Australia. That, combined with the other company locations for the processing of blue gum in Bunbury, is likely to mean that the Diamond Mill will not continue to operate. The benefits to the state of Western Australia are perceived to be greater under that proposal, because there is a higher level of processing in Western Australia and more jobs, rather than in the exporting of karri woodchips.

Mr D.F. BARRON-SULLIVAN: I refer to page 202 of the *Budget Statements*. I realise that this is an off-budget item that should be read in conjunction with the annual report. The first paragraph states that the total annual amount for the regeneration program is \$14.7 million. It refers to an amount of \$64.4 million being the total program cost for the national action plan for salinity and water quality. I cannot find the \$14.7 million in the capital program for regeneration. When I look at the total value of the national action plan, which, I presume, includes expenditure on the plantation development - because that fits in under the guideline of the plan - it does not come anywhere near \$64.4 million. Are these strictly capital figures, or do they have a recurrent component or are they part of off-budget commonwealth expenditure?

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Mr M.P. WHITELY: I invite Dr Biggs to respond.

Dr P.H. Biggs: The \$64.4 million includes both state and federal government funds. The state contribution is the \$32.2 million. That equates to the second line under “Works In Progress”, which reads “National Action Plan - Tree Planting Program”.

Mr D.F. BARRON-SULLIVAN: The average is \$16.7 million for the total program cost, not \$64 million.

Dr P.H. Biggs: For the three years within this budget, that is correct. That \$32.2 million over the total life of the project includes earlier years that are not in the budget papers.

Mr D.F. BARRON-SULLIVAN: In other budget items that is usually the total program cost, even if it includes figures before or beyond the out years. What about the \$14.7 million regeneration costs? That is an annual amount but, again, I cannot see it in the budget.

Dr P.H. Biggs: The \$14.7 million is contained in the statement of corporate intent, which is obviously dealt with and tabled in a separate process. It is not a capital works item, but it is largely funded from the operating revenue during the year.

Mr D.F. BARRON-SULLIVAN: That is recurrent expenditure then?

Mr M.P. WHITELY: Yes, it is.

Mr D.F. BARRON-SULLIVAN: Even though it is on regeneration, whereas plantation development and so on is included as capital?

Dr P.H. Biggs: Correct.

Mr P. PAPALIA: I refer to the second paragraph under “Capital Works Program” on page 303 of the *Budget Statements*. In the event of a change in federal government and the likelihood of a national carbon trading scheme, has the minister considered whether there would be a role for the Forest Products Commission to participate in such a scheme?

Mr M.P. WHITELY: I like the optimism inherent in the member’s question. I invite Dr Biggs to respond.

Dr P.H. Biggs: The Forest Products Commission would certainly be looking for opportunities for carbon trading out of the plantation estate that is grown. There would be a huge opportunity for multiple environmental benefits out of the plantation program, particularly if those plantations are in the intermediate rainfall zones and can contribute to salinity control as well as climate change. We have been running a pilot program with BP’s Kwinana refinery for a number of years. Once a trading scheme is in place within the state or Australia, we anticipate that there will be a huge opportunity to contribute to the plantation development in this state.

Mr D.T. REDMAN: I draw the parliamentary secretary’s attention to the total cost of the capital works program on page 303 of the *Budget Statements*. In the out years 2008 through to 2011, the figures have dropped off substantially. What is the product of that change? Am I missing something in terms of how to read the *Budget Statements*?

Mr M.P. WHITELY: I invite Mr Melville to respond.

Mr S. Melville: Commitment to the program does not extend beyond 2008; that is why the numbers drop away.

Mr M.P. WHITELY: It relates to the answer I gave in the agricultural division. It has the same effect.

Mr P.D. OMODEI: My question relates to the national action plan pilot tree farm project. Is the Infinitree project part of that plan? Can the parliamentary secretary provide an update on where the Infinitree plantation project is at?

Mr M.P. WHITELY: I invite Dr Biggs to respond.

Dr P.H. Biggs: The Infinitree program was a title given when the funds were totally sourced from FPC revenue or debt programs. The current funding comes through the national action plan for salinity and water quality, so it is badged with that name. Therefore, the Infinitree program, if the member likes, is parked there.

[4.00 pm]

Mr P.D. OMODEI: I suspected that was the case.

The CHAIRMAN: That completes the examination of the Forest Products Commission.