

Wescorp Group

Hon. Brian Ellis MLC
Chair
Standing Committee on Environment and Public Affairs
C/- Parliament House
Harvest Terrace
Perth WA 6000

Re: Petition Number 152 Tabled by Hon Wendy Duncan MLC

Dear Mr Ellis,

I have finally had time to read the submissions that are public before the Standing Committee. Most mis-informed submissions are not worth commenting on, but comments made by the TFS submission 2.4 on page 11, does need to be addressed. It is headed "Potential Conflict of Interest Between Wescorp and FPC".

One of the major roles of Wescorp for FPC is to **"keep them informed of the market conditions and competition to the FPC sandalwood."**

BACKGROUND;

The Pacific region has very good sandalwood and has been harvested since the late 18th century. After taking the majority of the resource by 1850, the supply from these regions comes in twenty year cycles. This is to say that traders forget about the resource for twenty years, and by then, there are trees twenty years older than last time they were harvested. They move in very quickly to harvest and there is a new generation of land owners. Because of the generation gap and the twenty year cycle, traders are able to buy this sandalwood very cheaply. So cheap that it is not worth the local land owners replanting. They simply rely on natural regeneration.

EFFECTS on the MARKET;

When these cycles are in full production it suppresses the overall market and puts pressure on the prices of the FPC sandalwood, which is poorer quality when compared to the Pacific sandalwood. Generally they were selling for the same price or very close. This disrupts the market and puts enormous pressure on the whole sustainability of the world sandalwood industry. The first time we saw this was in 1998 when Indonesia flooded the market from Timor with excellent sandalwood equivalent to the Indian sandalwood. This caused huge disruption to the market for about 15 months and CALM (as it was in those days) was only able to sell less than 50% of the WA harvest. Once the excess stock was cleared, we were able to get back to normal.

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ACTION by CALM/WESCORP;

Dr Syd Shea was the head of CALM in those days, and he made it very clear to Wescorp that we had to develop a strategy where this would not happen again as it put enormous pressure on their cash-flow. From many meetings, it was agreed that if Wescorp went into these markets next time and pushed the price of the Pacific sandalwood up to its real value paid to the indigenous farmers, it would alleviate the pressure on the WA sandalwood prices. It was decided to start a new company for this specific task.

VANUATU SANDALWOOD BOOM 2005;

In 2004 we noticed a large increase in *S. austrocaledonicum* coming into the market from Vanuatu. A subsidiary of Wescorp Holdings was created, Wescorp Pacific Sandalwood (WPS). WPS visited Vanuatu and struck a deal with the major local exporter. The structure was along the following lines;

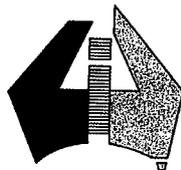
- WPS to draw up a new set of product specifications for the sandalwood
- Show them how to add value to the product before it left their shores
- Increase the price of the harvested wood to the growers
- With the increase in price growers started to plant sandalwood and in the 12 months we were in this market, the nurseries carrying sandalwood seedlings increased from 1 to 23 in Port Vila alone.
- Work with Dr Tony Page from the James Cook University in Cairns to demonstrate the importance of replanting and creating a sustainable sandalwood industry. Dr Page developed village plantations and his work has been well recognised.
- Double the price the market was paying for the sandalwood in Asia.

The sandalwood boom from Vanuatu had no effect on the FPC sandalwood sales and we were able to increase WA prices with all volumes harvested sold. WPS withdrew from this market after 12 months satisfied that we had made a difference to the income of the local people, protected the WA sandalwood harvest and assisted in creating a sustainable industry.

FIJI SANDALWOOD BOOM of 2007;

WPS did the same thing in Fiji in 2007. We were able to lift the prices to where they should have been, which is just below Indian sandalwood. We wrote up the product specifications and worked with the Forestry Department on testing trees and guiding them in replanting. Unfortunately, the sustainability has not been as successful, but at least after 6 months we were able to increase the grower returns and establish the true value for *S. yasi* in the Asian market.

After 6 months we withdrew from this market, because we were not comfortable that it was sustainable, but again the sale of *S. yasi* did not affect the sales or value of the WA sandalwood. During this time we were able to lift the WA sandalwood prices by 18%.



HAWAIIAN SANDALWOOD BOOM of 2010;

Again in late 2010 we noticed Hawaiian sandalwood coming into the market place at very cheap prices. WPS went to Hawaii in November 2010 and struck a deal with the local harvesting/exporter for the following;

- WPS would double the prices they were currently achieving and would earn commission on sales
- WPS would develop a Product Specification that would utilise all of the tree harvested
- Assist with the replanting of local sandalwood trees and hosts
- Develop their machinery to add value to the product before it leaves their shores creating much needed jobs and income on Big Island.

It is true that during the 8 months we worked with this company we may have exported about 500 tonne of product for them. As with all other countries, the high prices increased returns to the grower. Contrary to TFS claims, all of this product did not go to the FPC agents as this sandalwood is quite different to what the FPC agents were used to using. A great deal of it went into the furniture market.

By July 2011, WPS withdrew from this market for the following reasons;

- The company was not following a sustainable replanting of host trees for the local sandalwood that was re-generating at extraordinary rates. The sandalwood needed to be thinned and more host trees needed to be planted.
- The company was not drying the sandalwood enough before it went into containers and we were experiencing significant claims for "mouldy" sandalwood.
- TFS had entered negotiations to buy the sandalwood.

The sales of Hawaiian *S. paniculatum* had no effect on WA sandalwood sales and the last container via WPS went to Asia in June 2011.

IMPORTANT FACT;

For those who know the agarbatti industry, it is very clear that WA sandalwood is not mixed with other sandalwoods. The only one that can be mixed with WA sandalwood is the Queensland sandalwood, known as *S. lanceolatum*. This has been happening for centuries and the old Australian Sandalwood Company used to trade in both *spicatum* and *lanceolatum* when it was the Agent before Wescorp. WA sandalwood is recognised as the best agarbatti sandalwood in Asia because of its strong aroma per kilogram. Pacific sandalwood and Indian sandalwood are blended all of the time. The consumer does not recognise the difference between Indian sandalwood and Pacific sandalwood.

We assume that is why TFS was so keen to buy Hawaiian sandalwood. The oil and aroma are very similar to Indian sandalwood.

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CONCLUSION;

The trading of Pacific sandalwood by WPS has;

- Protected the WA sandalwood prices
- Helped FPC understand the whole sandalwood market and where WA sandalwood sits in the industry
- Lifted returns to growers in the Pacific
- Ensured the replanting of sandalwood for indigenous people of the Pacific
- Helped standardise the product specifications for the sandalwood industry.

The illegal harvesting of WA sandalwood has affected the market in Asia. It is being sold cheaply and poorly presented in the market. This is the major issue that Western Australia has to address.

Once again, Wescorp like to extend an invitation to our facility in Canning Vale for the Committee to gain a better understanding of the sandalwood industry.

Yours sincerely,

Tim Coakley
Executive Chairman
Wescorp Group of Companies

22nd November 2012

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