

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2016–17 ANNUAL REPORT HEARINGS



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 13 FEBRUARY 2018**

**SESSION FOUR
FOREST PRODUCTS COMMISSION**

Members

**Hon Alanna Clohesy (Chair)
Hon Tjorn Sibma (Deputy Chair)
Hon Diane Evers
Hon Aaron Stonehouse
Hon Colin Tincknell**

Hearing commenced at 3.30 pm

Mr STUART WEST

General Manager, examined:

Mr ANDREW LYON

Business Manager, examined:

Mr RON LUCAS

Director, Finance, examined:

Mr GAVIN BUTCHER

Director, Operations, examined:

The CHAIR: On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. Can the witnesses confirm that they have read, understood and signed a document headed "Information for Witnesses"?

The WITNESSES: Yes.

The CHAIR: Thank you. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. It is also being broadcast live on the Parliament's website. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Agencies have an important role and duty in assisting the Parliament to review agency outcomes and the committee values your assistance with this.

Do you have a brief opening statement of no more than two minutes?

Mr WEST: Only to thank you for the opportunity. We have had a great year. Our annual report demonstrates what we believe is a good, healthy year. It was profitable. There were no significant items that were deleterious to our performance and we are very pleased to be here with the opportunity to explain more about our business to the committee.

Hon DIANE EVERS: My first question—possibly a relatively simple one—relates to page 2 of the annual report. I note that you show under financial highlights a \$2.1 million profit for native timber, a \$10.5 million profit for sandalwood and a \$5.1 million profit for plantations, kind of suggesting that there is at least a \$17.7 million profit there when in fact it was only \$10.4 million, and that was before revaluations, showing that you had a profit for the entire organisation of \$5.6 million. It seems a little misleading.

Mr LUCAS: If I can refer you to note 46 on page 109, it analyses that out and shows that there are other elements of the business—policy and industry development and non-commercial—that winds it back.

Hon DIANE EVERS: I am well aware of that. It is just that on the front page it is showing the significant profits and, yes, they are brought back, but when your total profit is under \$6 million, that page does look a little misleading.

Mr WEST: That is a valuable comment, and we respect that. We are going to great efforts to try to be clear and simple in our annual report and we certainly would not like it to be accused of misleading or to be misinterpreted, so we actually have put an awful lot of effort into last year's annual report compared to the past. We will certainly take that comment on board as we develop the current year's annual report. I can be honest that it is not our intention to mislead, but I respect that, and with your comments now I understand exactly how that looks. I have not actually had that pointed out to me in the past, remembering that we have other business items that are not profit making, so we understand it, but we are very close. That is valuable feedback; thank you.

Hon DIANE EVERS: Thank you. A few of my questions are related to the profit because I came into this not that long ago, knowing that FPC was there to make profit, and we were saying, "Look, it has made a loss for a few years, when is it going to make a profit?" Now you have made a profit, but I have gone on from there. I looked into the forest management plan that says that it will be guided by the principles of ecologically sustainable forest management—fine. Then we go into the Forest Products Act, under which FPC operates. That states that a profit in relation to the exploitation of forest products produced on public land means an appropriate return to the state for that exploitation, but it needs to do this while ensuring the long-term viability of the forest products industry and that the principles of ecologically sustainable forest management are there. It sounds good at first but in a way it seems like we are more looking to manage it for the economically sustainable force. What we are looking at by measuring the forest for how much is the value of the timber, we are really just trying to maintain that we will continue to be able to harvest that timber. We are not really looking at the health of the forest but the health of the ongoing incentive there.

What I am looking to say is that our forests are already stressed by many other factors. We have dieback, lowering of the watertable, diminished rainfall, weeds, heat stress, fire—both planned and unplanned—as well as human encroachment. Given the increasing stresses on the remaining south west forests, has any consideration been given to the eventuality that it might not be reasonable to expect a profit and sustain the forest instead for its ecological health? I know this is a big step for FPC, which is there to make profit, but the forest is not growing, it is not back to where it was; we are just trying to keep it where it is without making it worse. I guess what I am saying is that that is really not good enough—not for FPC, but as a general policy.

Mr WEST: I understood all of that. If I do not hit the mark, please let us know. Of course, there are a couple of things, but remember that our responsibility is to take the allocation available to us. My interpretation of your comments, with respect, are about the overall sustainability and purpose of allocation and economics of utilising that allocation. The role of the environment department, now the DBCA, is to do the high level strategic allocation to consider growth factors and stresses on the entire resource and then weigh that up and allocate to us. The current legislative environment in which we are operating says then that based on what we are allocated, we need to endeavour to make a profit recognising environmentally sustainable principles. I think your comments, if I am interpreting this correctly, refer to the framework which results in the Forest Products Commission being allocated the resource from which to make economic optimisation out of.

Hon DIANE EVERS: That is what it seems like. Your role is just to make the economic side of that work, it seems like; it is not really the health of the forests.

Mr WEST: Except that I would strongly state that within the principles of ecologically sustainable development we have a number of checks and balances, and certification and what have you. I would say that it is a really close balance. It is a strong focus between ecological outcomes, which are our self-interest because our future relies on increased forest health so that there is future resource available for us to access. I would say that we actually have a vested interest in strong

forest health, otherwise the alternative to that is that we would not be investing in a sustainable future because the future access would not be there.

Hon DIANE EVERS: I see what you are saying; okay. I will go on to the next part and maybe come back to that.

In the annual report a surplus is shown for native timber of \$2.1 million. That is excluding the revaluations and tax. To get this, there were 150 000 tonnes of jarrah and karri sawlogs. That is on page 116 of the annual report. Even if we ignore the revenue of the other wood, these figures still suggest a profit per tonne of these hardwoods of \$14. Again, I am back to the same point of measuring the forest for the other benefits that you have. In recognising that the commission values the forest asset purely on the timber, would it not make more sense to consider the value of the forest for the other ecosystem services—as I said before, the healthy soil, clean water, habitat, pollination—the other items of potential economic benefit we could get from there but also the services that it is providing to us as a state?

[3.40 pm]

Mr WEST: That is a really good question. Perhaps in a moment I might hand over to Ron, as our chief financial officer, to talk about valuation and valuation methodology. They are reasonable points that you raise and it is a challenge for us to report remembering probably not so much page 118, but there is a requirement for us to satisfy audit and accounting standards for auditing for the year's activities and in valuation that in itself is quite problematic. I am sure you are aware how valuation, which is a future number, fluctuates in any one year, and it can be a big distraction to businesses like ours. Perhaps Ron might have some additional comments, but I respect that you are referring to broader values. Monetising those or quantifying those is problematic in the environment as you are probably far more aware than I. Ron—perhaps a valuation perspective.

Mr LUCAS: I am a CPA member and a frustrating point is the accounting standards and how you have to treat the valuation of forests. At 30 June 2017, we are reporting in our statement of comprehensive income the revenues and expenditure and we end up with profit from operations. We are then required to value the three forest sectors we have and that is from 1 July 2017 on and it goes out. What is the value of the forest going into the future at the balance date of 30 June 2017? We have to wash that balance through in accordance with the accounting standards through the profit and loss statement. You are probably aware of the valuation techniques as described in note 2.17 of our annual report on pages 60–61 and also in a little bit more detail on pages 84–86 of the annual report. Each forest sector has its own unique valuation characteristics. If I could change the standards, I would, and wash through equity. Treasury require us to pay a dividend not based on profit and loss before tax but based on an adjusted operating profit. For example, if the valuation for some reason went up \$20 million, how could we pay a dividend to Treasury on a \$20 million increase in the profit and loss statement? We physically do not have the cash. We are valuing the forest of a \$20 million increase, for example, over the next indefinite period and its sustainability as per the FMP itself. It is an argument that unless the accounting standards change, it will be there forever. VicForests, for example, do exactly the same; they report on profit from operations, which is before biological asset valuation movement.

Hon DIANE EVERS: Who is this?

Mr LUCAS: VicForests.

I appreciate that it is which line you look at, but from how well is FPC performing, I think one needs to look at the profit from operations because that is a judge on how much cash we are earning and what we do with it.

Hon DIANE EVERS: In previous years and not so much this year, there was not a profit and that is what I am getting at.

Mr LUCAS: In the native forests.

Hon DIANE EVERS: Yes, in the native forests. There is no comment yet on the sandalwood and plantation but in the native forest one, I disagree with the idea of trying to make a profit out of it from the sale of timber—but even when we do try to do that, we are actually damaging the forest and not making much of a profit.

Mr LUCAS: Can I explain that at the end, FMP 2003–14 caused great angst in the industry. Our revenue went way down. How do you make a profit out of that? It took a couple of years for customers to gain confidence again and start to buy. We have had fires that have stopped harvesting. We had a major customer exit and some rethinking from our major customers about what they are doing. They suspend operations for a while. For example, with a recent sawmill closure this year, the effect of that is that we have to review what we can do with the timber and sell it again. It takes time to advertise and sell.

Hon DIANE EVERS: But even then from talking to the mill owners, they shut it down not permanently but because they had a backlog of timber and they said there is not the demand for it either. That is another reason not to cut more of it if the demand is not there.

Mr WEST: With respect, I guess it is quite chicken and egg because we certainly had experiences with WA timber in the past where we build expectation of potentially supplying product that we could not supply. It is very complex. These sorts of businesses have a lead time of purchasing logs, converting them, finding markets. Probably a good example, because it is simpler to think about, is our softwood market, which just links to the housing market—so it is simple to comprehend. Of course, you can go through the proper business management process of running a sawmill, securing a future tender or future access to logs to convert them into timber only to find that the housing market declines, people do not want to buy your timber but you have spent your money predicting the market was doing this, and as you are converting it and kiln drying it and the like, the market declines. My strong view is that it is very complex to look at mill stocks, and I believe there is a lot more to it than saying the market must be declining because they are not selling products so they are not buying logs. I think there are an awful lot of interactions at play.

Mr LUCAS: If I can just make one other comment, on page 4 we talk about how much money FPC spends in regional WA—that is \$94 million, which is consolidated. If you look at page 109, the break-up, the native forest component of that, which is the employee expenses and external segment expenses is \$31.9 million for native forest alone going into the south west communities. FPC is spending in a consolidated sense between the three forest sectors \$94 million in 2016-17 in regional WA.

Hon DIANE EVERS: Yes; but what is the value of what is being taken away? I understand what you are saying. We have a philosophical difference of opinion, I think, that we are not going to resolve with the numbers. As an accountant as well, I understand how you can use them to demonstrate what you need to from time to time completely accurately, but it may not actually reflect what is going on.

Mr WEST: I think we respect your comments and summary. I guess we are coming from different sides, but we do respect what you are saying.

The CHAIR: I think it would be great to have that philosophical discussion even further. I would like to participate in it myself but unfortunately other members have questions as well. We will come back to Hon Diane Evers if we can.

Hon TJORN SIBMA: Thank you, chair, and thank you gentlemen for appearing before us today. My question pertains to page 21 of the annual report—in particular the future of softwood plantations. I would be grateful for an update on how the softwood industry strategy has been implemented since 2016 and how effectively we are addressing the gap in softwood supply. It is an open question and I would be grateful for a response.

Mr WEST: It is a good question, and for our business it is an important part of the future and for the sector entirely. The strategy is, for those members who may or may not be so familiar with it, about expanding the softwood estate and growing into new plantation areas so that we can secure resource for current supply and expand. The sawmills we have, like all sawmills around the world, would like to increase their capacity and be able to increase unit cost without additional capital—so process more. We had a major expansion of the softwood plantation area with the significant purchase of a property that was planted—Gavin might be able to correct me if it was entirely planted last year —

Mr BUTCHER: Yes, in the Collie area.

Mr WEST: That is right. We are continuing to expand the resource, and to this day we are actively pursuing market opportunities for new land areas to expand. With the softwood market, coincidentally about a year ago, the major sawmill customer had indicated to us that the housing market was in decline and they indicated reduced forward projections of demand, which has an impact on the future resource, although we should be aiming to grow the resource over time despite short-term interruptions. Within three months of that projection, they turned it around and instead of being pessimistic, they accessed markets on the east coast and grew, so demand is looking optimistic; it is better than it was 12 months ago. We are successfully acquiring and establishing new plantation whilst also re-establishing existing plantation that gets harvested into multiple rotations. We suffered unfortunately some disappointing fire losses in recent times. The fire of three weekends ago is a good example where we lost a reasonable amount of mature plantations, which we can salvage and that brings forward the harvest, but unfortunately we lost a reasonable area and again perhaps one of my colleagues will have a number of mid-teen plantations.

Mr BUTCHER: It was about 250 hectares, half of which was young plantation.

[3.50 pm]

Mr WEST: That is a real problem, because we cannot salvage immature logs. Of course, they are too small, and they burn through. We suffer occasional setbacks of fire, but, on the whole, the softwood strategy is being delivered, we are growing the resource and the market is looking good. I do not know if my colleague Gavin might have anything to add on the strategy.

Mr BUTCHER: We are also, I suppose, trying to engage with industry more broadly on the strategy, so it is not just the responsibility of government to provide resources to the industry into the future. We are working closely with prospective investors, including the local industry, in terms of them expanding their investment in the industry, because obviously government resources are limited to be able to achieve this task. It is an expensive business growing plantations, as you can see from the assets that are built up. It is a substantial investment and we see the whole industry contributing to make this work.

Hon TJORN SIBMA: In terms of continuing to look to expand the available estate, whereabouts are you looking, and what kind of arrangements do you enter into in securing the estate? Does FPC actually purchase land outright or do you get leasehold over crown land? How are those matters dealt with?

Mr WEST: That is a good question. Historically, putting aside access to crown land or government-controlled land, it has been through leasing arrangements and share-farming arrangements. Looking at the cost benefit, the intention is to manage that with lease or purchase depending on the preference of the owner. We are working through the economics of that at the moment, because, quite often, with potential lease rates, if they are favourable, it is certainly beneficial for us not to pay up-front costs and to lease. But if we get a good price on purchasing, we really believe that is well worth considering, particularly with potential surplus blue gum land that was planted to blue gums and is no longer going to be planted to blue gums, because we are very comfortable as a land user to purchase land full of tree stumps to plant more trees. But to go back to agriculture, it has an impediment cost to a farmer of well over \$1 000 a hectare to convert. We kind of have a \$1 000 a hectare advantage to purchase the land. There are plenty of areas, particularly in the Collie River catchment, for example, where we understand that the plantings have had environmental benefits of lowering the watertable and lowering salinity, and we are very interested, where it is mutually beneficial, to access those through purchase or lease for plantations so that their effect on the watertable is not undone. We take advice from the water department particularly on what their preferences are.

Hon TJORN SIBMA: In terms of your total estate, with 80 000 hectares set aside for softwood plantations, is there an actual ceiling on available acreage that we should utilise in terms of the rest of your business profile, or are you looking to, for argument's sake, increase the availability of land by 50 or 60 per cent? Are you setting yourself targets like that or are you coming across opportunities as they emerge?

Mr WEST: The primary driver for expansion is the softwood strategy, which announced a \$21 million reinvestment of our own funds to expand. That \$21 million is the amount that we talk about, plus we have a financial allowance to re-establish our plantations when we clear-fell and replant them. It is interesting about the market. One of the things even for the softwood strategy is that we are very careful not to distort the market. If we wildly announce we are in the market for growing the estate, land prices go up 50 per cent and you do not get very much for your money, so we have got to be very strategic in how we access it. But that is another good reason why with ex-blue gum plantation land, it can be done transparently on the market in a way that there is very little competition for the land without people paying a discounted price.

Hon TJORN SIBMA: I am also just curious—forgive my old interest here—about the 3.5 million seedlings that have been planted. Can we get a sense of what proportion of those seedlings are likely to make it to maturity, notwithstanding fire events? What can you bank on in terms of output?

Mr WEST: We can talk about this for a long time, Chair.

The CHAIR: But we are only going to talk about it for a few minutes!

Mr WEST: I will keep that in mind. We plant about 1 600 trees per hectare, on average. It might be 1 500 or thereabouts. As we do thinning operations throughout the life of the stand, we remove half of the trees—so, effectively, every second tree, as opposed to half of the paddock—but we take out the fifth row operationally, because that is where the machine drives through. For an average plantation, at about age 12—it could not be much earlier, but it could be a bit older—it will go from 1 600 trees to 800 trees. Then, at about age 20, it will go from 800 to 400 and after that, it might likely be reduced or it potentially could be clear-felled. It is done through site productivity modelling, which is called full or optimal site occupancy. It is about letting the trees grow to fully utilise water and nutrients in the site, but when the trees are bigger and the site cannot support it, you trim it back down so that fewer trees can get bigger, and fewer trees can get bigger again. We hope for 98 per cent survival in our establishment. We have pretty streamlined and healthy practices. Some

other businesses who perhaps purchase seedlings on the open market or have their own nurseries experience maybe 50 or 60 per cent survival. It is not cost-effective to replant every second tree, so you would actually clear that and start again, but you would lose a year's growth, because you plant in June or July, but you plant your seedlings before Christmas to grow into a size, so survivability is important as well.

The CHAIR: Did you know that Norway grows the tree every year for London? The Christmas tree that is in Trafalgar Square is grown in Norway and transported every year —

Mr WEST: It is a shame it is not a Western Australian pine tree.

The CHAIR: — as thanks to that country for its support in the Second World War.

Hon COLIN TINCKNELL: I refer to page 17, and your Eradicat trials on feral cats in the southern karri forest. Can you just provide a general update on how that is going? Obviously, we know that feral animals are a major problem.

Mr WEST: I might hand this to my colleague, Andrew.

Mr LYON: I can give a brief update on this one. It is a trial that is being run in conjunction with DBCA. They are targeting areas in the forest that we know they were having problems with. FPC is providing support through DBCA to provide that, and the last update I had was that it was going very well.

The CHAIR: Is there anything you wanted to know, member, that you might want more detail on?

Hon COLIN TINCKNELL: I suppose DBCA would be the people I would get the full results from.

Mr LYON: They are the people. We are obviously funding part of it because it is in our interest to do that, but it is a DBCA-run program.

Hon COLIN TINCKNELL: I am happy with that. Moving along, I refer to pages 31 and 32 and employment. I see that you mention that 70 per cent of your workforce is local—from the regions. What I am mainly interested in, as the member for South West Region, is that we have a real particular problem of keeping 15 to 24-year-olds in the south west. I am just wondering how many of your workforce could be in that youth area. Do you have figures on that, say, somewhere in the region of 15 to 24 or 18 to 24?

Mr WEST: Do you mean within the industry as opposed to FPC employees?

Hon COLIN TINCKNELL: Yes.

Mr WEST: We have recently had the socioeconomic work. Perhaps Andrew can enlarge on this.

Mr LYON: They have done a breakdown by demographic. That was not one I have looked at.

Hon COLIN TINCKNELL: Can you make that available?

Mr LYON: We have nine copies to make available to you.

Hon COLIN TINCKNELL: I only need to know what those figures are just on youth employment.

[4.00 pm]

Mr LYON: I am not sure if they did it specifically on youth employment, but it may be something that we can look at getting.

The CHAIR: Can we ask that you go back, check whether there is youth employment in that; and, if there is not, to provide it to us.

[*Supplementary Information No D1.*]

Hon COLIN TINCKNELL: It is an important figure for members of the South West because we are losing so many young ones to the city. Just to advance on that, I notice that you do have an

Indigenous program going. How is that going? Is that just starting off or is that advanced? How well is that going?

Mr LYON: We are just starting off with this. We have some programs that are quite mature in themselves, but our more broad program is just starting off. We are involved with the Aboriginal ranger program, such as with Credo station, where we are helping to provide funding for them to do some of the restoration work and things like sandalwood seed collection and regeneration work there. For the FPC in general, this is something that we are looking at at the moment to bring those projects forward.

Hon COLIN TINCKNELL: These are more to do with the financial side. Other expenses are listed on page 71. One area I am quite intrigued to know about is what resources were received free of charge. It went from \$22 000 to \$98 000. I am just wondering what they may be. It is under “Other expenses”.

Mr WEST: We see that on page 71—the bottom line. I’m looking to Ron from finance.

Mr LUCAS: I am thinking it might be the State Solicitor’s Office, or something like that, but I think we had better take it on notice and come back to you with exactly what it is.

[Supplementary Information No D2.]

Hon COLIN TINCKNELL: Also, this is on the same page, what has caused the increase in the allowance for doubtful debts from \$84 000 to \$244 000 in that one year? That is line 3. It is quite a big increase.

Mr LUCAS: I would have to look at the provision for doubtful debts note, which was reported at note 23. Maybe I will be needing to take that on notice as well. I do the provision each year. It is seven or eight months ago now. We review each customer in detail and make a decision as to the status of their debt and what we will provide in terms of doubtful debts. The reason for the increase, I cannot quite pinpoint at the moment.

Hon COLIN TINCKNELL: This is all on the same line. If I could also add, what particular area of commission activity resulted in a total comprehensive income decrease from \$22 million in 2016 to \$4 million in 2017? That could also be on notice, if possible.

The CHAIR: That will be a separate one, I think, because they are different questions.

Mr LUCAS: What page was that on—sorry?

Hon COLIN TINCKNELL: That is all a part of page 71—the same page. It has it under overall commission activity.

Mr LUCAS: I am not sure which page number.

Hon COLIN TINCKNELL: Maybe I am wrong here. I have it under 71—under “Other expenses”.

The CHAIR: We will take D3 as the provision for doubtful debts.

[Supplementary Information No D3.]

The CHAIR: Can you repeat your question again, member, under “Other expenses” on page 71.

Hon COLIN TINCKNELL: The first one was: what caused the increase in allowance for doubtful debts?

The CHAIR: Yes, we have that one.

Hon COLIN TINCKNELL: The second one was: overall, what particular area of the commission’s activities resulted in a total comprehensive income decrease from \$22 510 000 in 2016 to \$4 230 000 in 2017.

The CHAIR: Okay. We are going to page 50 on that one, rather than staying with expenses.

Hon COLIN TINCKNELL: Sorry. I have been given the wrong information on the page number.

The CHAIR: That is all right; it is all good. That is why I asked you to ask again, so we could find it and look it up.

Hon COLIN TINCKNELL: Thank you.

The CHAIR: What you are asking is: what is the reason for the dramatic change in the bottom line?

Mr LUCAS: There is a note in the accounts that provides explanatory notes. Significant variances of actuals to actuals for 2016–17 is explained in note 39.2 line by line.

The CHAIR: Maybe you would like to, for the record, read it out to us.

Mr LUCAS: It goes through where there is a material movement. Significant variations between estimates and actual results for 2017 and 2016 are those that are greater than 10 per cent or more than \$5 million. Note 39.2 provides eight items explaining those variances. There is an explanation note on each one of them. Perhaps there is a further question out of that.

The CHAIR: It still does not explain why there was a dramatic decrease.

Mr WEST: Half of that amount is the line “Profit before change”, which is the biological asset movement, I believe. That is \$11 million of the \$18 million. Two-thirds of it is just that the valuation jumped the year before and declined this year so, collectively, that is \$11 million.

Mr LUCAS: Plus, there is a major movement in total income. We had a fantastic year with sandalwood in 2016 and that was not there in 2017.

Mr WEST: Predominantly, last year we had the discussion about—the sandalwood contracts were coming to an end. We had a whole re-contracting process for the sandalwood contracts, so our customers were not sure what was going to happen. We had tendered, but the results were not announced. They ran down their stocks and were not ordering more. It was a big interruption to the sandalwood business, which is now normalising again. That had a significant contribution.

Hon AARON STONEHOUSE: I refer to page 88, specifically point 29.1. It states —

The FPC is exposed to the following risks relating to its Sandalwood asset:

...

(ii) Supply and demand risks.

The FPC is exposed to risks arising from competition in the international market for low grade Sandalwood products and the impacts illegally harvested sandalwood has on markets. The FPC manages the market ... risk through an agent and the illegal harvesting through promoting legal reforms.

My question is around the promotion of legal reforms. I have a few questions around that, but perhaps to start off and to make sure that I am on the right track, to whom does the FPC promote these legal reforms? Is it to the state government or to other jurisdictions?

Mr WEST: Gavin might be the best person to talk on this, but part of our industry development role is that we promote them to the industry, to our customers, to the government and to the environment department. It is everybody, because there are a number of issues here. Of course, we have access to some sandalwood but people are able to illegally access it—unrelated to our business—to steal it from other people. It is right down to authenticity for our customers in the sector and everybody understanding why it is important. There are a number of issues including seizure of wood and how that is used and how that revenue is used. Gavin is well versed in this area.

[4.10 pm]

Mr BUTCHER: The honourable member might remember there was a petition to Parliament—to the upper house, I think—a couple of years ago, and a report on the sandalwood industry that resulted

in a number of recommendations which went to both the Department of Biodiversity, Conservation and Attractions and to ourselves.

A lot of that promoted changes to the legislation, which culminated in the new Biodiversity Conservation Act. We were a great supporter of the changes and worked closely with the department in looking at those sorts of changes, which assists in the regulations and appropriate penalties for the theft of sandalwood. We have supported the department and fund one of its regulatory officers. It previously had only one officer able to regulate the whole goldfields region in terms of all the regulations, not just sandalwood, so we also fund a further regulatory officer there. In terms of the other regulation, there are two acts of the commonwealth.

Hon AARON STONEHOUSE: Did you say officer or office?

Mr BUTCHER: One other officer to help in the coordination, particularly for the control of sandalwood theft. There are two pieces of legislation that work through the commonwealth, the illegal logging act and the export licensing act, which also work to help control that. We work closely with the commonwealth in terms of the administration of those acts and supporting the processes as we can with intelligence and other activities. We have people in the field who hear things and we pass those things on if we can if it is appropriate.

I suppose the last thing Stuart mentioned was the development of a chain of custody process. We are now working on a process to ensure that legally harvested wood can be tracked right through the production chain and to try to cut out the processes where illegal wood can be laundered through the system as it has been in the past. We work pretty intensively in this space because it is very important. We have seen the industry destroyed in places like India through illegal harvest, and in Indonesia the theft of wood has been horrendous. We want to have a sustainable industry here not only in the wild wood, but also in the plantation. Plantation woods equally have been great supporters of this process because they are vulnerable to people coming in and stealing valuable trees off plantations. It is about the whole sustainability of the industry going forward.

Hon AARON STONEHOUSE: Thank you; that explains a lot of it for me. I suppose what I was wondering is: can you put a cost on those efforts that the forestry commission is engaging in? I suppose, I am wondering: is there any sort of, for lack of a better word, lobbying activity that the commission engages in with other governments? You mentioned illegal logging in places like India. Is the commission engaged in any sort of political action or lobbying in that regard? Perhaps not.

The CHAIR: It would not be allowed to operate in —

Mr WEST: The closest thing we have—the Australian government has the illegal logging act. So, of course, protecting the borders incoming and outgoing is important. The states are required to have state supportive agreements, so giving jurisdictional authority, we have reciprocal legislation. So we developed in Western Australia, like all other states and territories in Australia, reciprocal supporting legislation so that the illegal logging act can operate. The key area where we do not—it is not lobby, but I guess where we inform and educate and try to assist other groups to understand implications is with the environment department primarily. But with the people who potentially catch people doing illegal activities and confiscate the wood, one of the issues is that we are very interested in what happens to the confiscated wood because, regardless of how it is obtained, if it ends up getting on the open market as additional wood, different people will benefit, but it is still promoting the illegal activity. So we are very interested in how that is managed. We have a strong interest in understanding that product's access and entry into any market because, perversely, the government might capture somebody and confiscate the wood, but then, if the government just tendered the wood, the recipient is the government, not the person doing the illegal activity, but it is still being sold to the market beyond sustainable levels. We have a lot of discussion with the

environment department and they are very understanding and sympathetic within the constraints of proceeds of crime requirements. We believe it is a high valuable product and it would be really valuable if a lot of those proceeds could actually be utilised to protect the asset broader. Fortunately, it is a valuable asset. When it yields millions of dollars potentially, that could go a long way to support government investment in the area of protecting the further resource, so I guess our primary education is in the direct stakeholders to us.

The CHAIR: Member, we have one last question and I need to move on to Hon Steve Thomas.

Hon AARON STONEHOUSE: I will yield for now and maybe come back to it later.

Hon Dr STEVE THOMAS: Thank you Madam Chair.

On page 41 of the annual report, we are looking at quantities of logging. I am particularly interested in hardwood, particularly jarrah. You estimate, I suspect reasonably accurately, the total bole volumes for jarrah. Do you have an estimate of average bole size and how that may have changed over time? I am looking for an estimate of the impact of various policies all the way back to old-growth policy in 2001 and how that has impacted on average bole size coming through. Do we have any quantitative data on that?

Mr BUTCHER: We do; we have received that data from the Department of Biodiversity, Conservation and Attractions and we can supply that on notice.

Hon Dr STEVE THOMAS: Could that be supplied, Madam Chair?

The CHAIR: In giving that number D4, I also note it is unusual for us to ask for significant back data, but as it is available —

Hon Dr STEVE THOMAS: Since they have done the work —

The CHAIR: Yes, we will, but generally speaking, we do not do lots of back.

Hon DIANE EVERS: It is back for how many years?

The CHAIR: Back data to 2001 they are saying.

Hon Dr STEVE THOMAS: Not necessarily, no.

Mr BUTCHER: I cannot recall exactly. What we had done under the previous forest management plan was a comparison. Under the previous forest management plan there was a large level of reservation just before the forest management plan. Looking at the average size of logs over that period was pretty important because industry was obviously saying that it has to change because it was used to getting old-growth trees that were not harvested after 2004, and the size of trees from regrowth forest was significantly smaller, and they were saying that this is having a very large impact and, obviously, we wanted verification of the sorts of numbers that were there.

Hon Dr STEVE THOMAS: Exactly what I am looking for verification of, so whatever you have got would be fantastic.

[Supplementary Information No D4.]

Mr WEST: To inform the committee, of course, it is shrinking significantly as you notice by the trucks going past you on the highway or what have you. There are larger numbers of smaller logs, so when we referred to the industry, I think my colleague Ron referred to industry efficiencies over time or costs over time, and they face a number of challenges. They are getting used to a very different product now than they had probably 14 years ago. It sounds like a long time, but for a big industrial process that is pretty basic as a process as a sawmill is, that is quite a shift in the business model.

Hon Dr STEVE THOMAS: Would it be fair to say that the Greenbushes timber mill in particular with that small log line is probably far more suited to using that diameter of log, basically, so has now a natural advantage with that investment?

Mr WEST: That is a good statement. The fact that sawmills even specialise in equipment to optimise recovery of small logs is a good position. I was not here but I suspect that after the cessation of old-growth logging, there would have been a lot of equipment that related to large logs that would have been inefficient and poorly utilised on a new diet of smaller logs. So it does drive innovation and investment in forcing these sorts of businesses to recover more from small logs, and it is happening, so that is a good thing, and they should have an advantage compared to those who have not reinvested.

Hon Dr STEVE THOMAS: Some of those big old saws can still be seen in mills if you look very carefully.

I jump to page 21. I am interested because this may have a similar effect. You have got your resources sector. I have to say that I have been watching FPC annual reports for many, many years and I have not seen one that has given as much information as this one for a long, long time, so I congratulate you on that. There are 8 800 hectares harvested out of a total accessible area of 850 000 hectares, which would kind of indicate about one per cent being harvested, which would indicate in theory a one-in-100-year harvest interval. I am interested to see what sort of average harvest interval you are managing in the removal of additional old-growth forest. I am also interested to know how much additional old-growth forest is being set aside each year. Are we hitting that one-in-100-year harvest interval or are we, in terms of even the smaller areas that we are now harvesting, having to reduce that harvest interval to maintain some level of supply?

[4.20 pm]

Mr WEST: Chair, I might start with this. I am not sure if my colleagues would like to add to it. I will perhaps comment about additional old-growth areas being added to reserve areas. Fundamentally, not us but the environment department should have completed the assessment of old growth, except for areas where they were unable to assess, and primarily that is inaccessible or inhospitable, and where they are identified they are trickling in. We have in the last 10 years ourselves identified approximately 2 000 hectares in our accessible part of the estate that we have discovered is old growth and had that added to the reserve system. I would draw the honourable member's attention to page 14, where there is actually a good schematic of the one per cent, which is consistent with your comments. We talk about the two and a quarter million hectares of forest in Western Australia, of which 62 per cent is reserved, which then leaves 38 per cent accessible. That is where the 850 000 hectares comes from, of which we access less than one per cent. In terms of frequency to return, it looks like Andy is enthusiastic to give you more information.

Mr LYON: A lot of that is based on the yield per hectare. The amount of area that is cut over is not a direct relationship with how much product you get out of it. There are some areas in the eastern jarrah forest where you have to cut over more hectares to get the same amount of timber as you would get in a more productive coupe somewhere else. I think it is a good figure for the annual report because it gives you an idea of how much we have actually done, but it is not quite a relationship with one to one.

Hon Dr STEVE THOMAS: So it is not fully measurable. All right; it was worth a try!

Hon DIANE EVERS: I have just a few questions following on from that. We do not cut in the old-growth forests any more, but then you have to have, I think, five stumps per two hectares to be declared old growth. In the forest that is not considered old growth, there may still be 400 or 500-year-old trees to some degree. There are still old trees coming out, and I think that sometimes

upsets people who have been told that old growth is not happening any longer. My question really goes back to the Barrabup, where it was not found that it was old growth until the community got upset about it and then some further assessments were done and pockets of old growth were found there. I am just curious to know what is the future for that area now that we have found some little pockets of two hectares here and there that are considered old growth in amongst the whole forest.

Mr WEST: Perhaps one of my colleagues will actually be able to more accurately articulate the numbers, but of the 530-hectare Barrabup area, I do not think it was two hectares here and there. How many total hectares were assessed?

Mr LYON: Forty-three hectares.

Mr WEST: Forty-three, which has been excluded. On the identification of that area, we worked with the environment department, because it effectively becomes an environment department issue to identify that we should not have access to this area, which was all previously demarcated as unassessed. Our on-ground officers say that you would not send your worst enemy there to walk through to do an assessment to see if it was old growth. It was inaccessible and inhospitable for the environment department to do their assessment in order to determine whether it was on the plan or not.

Hon DIANE EVERS: That is interesting. I walked through it and did not find that at all, but, then, I am not an assessor.

Mr WEST: Sure, and I think it varies in the large 500-odd hectare coupe. We worked through and improved our procedures with that. But I would like to be genuine that we have no intention of harvesting areas that we are not entitled to harvest and we have no intention to access areas that we are not entitled to access. Just as we have self-identified and self-declared an additional 2 000-odd hectares of old-growth classified forest in the last 10 years that have been on our plans that we have been entitled to harvest, we have gone in, we have identified, we have assessed and we have said, "We shouldn't be here and we don't want to be here." I was not here at the time. Presumably, we could have kept quiet and gone in and kept going and maybe nobody would have known, but we do not do that.

Hon DIANE EVERS: But that is what happened at the Barrabup.

Mr WEST: At Barrabup, we were commencing the activities believing either we were entitled to operate there or it was uncertain. We were beginning the process of doing the thorough commencement process. It is quite a detailed process. In this instance in particular, it is actually about counting old stumps, and perhaps Andy might go into a bit more detail about the identification. It is about counting stumps that you may or may not be able to see that may or may not be there. I would not like to give the misconception that we could not see five trees a metre in diameter in a small two-hectare patch. In fact, Andy, would you like to go into that?

Mr LYON: This was an area that had a certain type of old-growth forest on it called minimally disturbed. There is not just one type; there is a whole range. This one was a type called minimally disturbed, which is six stumps per two hectares. It was an area that had been affected by fire in the past as well and had left stump holes on the ground. These stump holes, if you cannot tell that it was harvested, are not deemed to be stumps, so you ignore them. It is a really difficult area to assess. There are criteria for doing it and the FPC makes no bones about the fact that we should have picked it up, but it is not as clear-cut as it is very easy to tell when you walked in that it was this. It was difficult, but difficult does not excuse the fact that we should have picked it up, and we should have. There is a continuum of how difficult it is and this was on the very difficult edge of this stuff to be identified. Also, it was identified by DBCA in their report that it was very likely that with the stump holes there, it would have taken only one or two more stumps in these areas to push

them over to being not old-growth classified. We are not saying that it was an easy classification, but we are also not walking away from the fact that the criteria was there and we should have got it ourselves. With Barrabup, as with other areas, we find patches of old growth ourselves and we put it up for reserving. Most coupes have areas that are reserved out of them for one reason or another, whether it is a fauna habitat zone or whether it is a patch of old growth. It does not then preclude the coupe from being harvested in the areas around about these things. As I say, most coupes have some areas of reservation in them for all sorts of reasons.

Hon DIANE EVERS: But when you then go in and harvest around these areas that have been set aside for one reason, do you not allow for greater inflow of weeds and feral animals and other things that may then damage that forest?

Mr LYON: That is all taken care of. You are going beyond into the realms of regeneration. DBCA have prescriptions for regeneration, so we minimise the impact of all that and if there are weeds, there are also conditions on us that we would have to regenerate that as well.

Hon TJORN SIBMA: I refer very quickly to page 29 of the annual report, entitled “Working with government”. Reference has been made to the establishment of the Forest Industry Working Group and the securing of \$500 000 to support a number of projects. I just have two quick questions related to those facts as stated. Firstly, can I get a sense from whom or from where those funds were derived and can I get an indication of what projects will be funded by that \$500 000 allocation?

Mr WEST: The funds were received through an application to royalties for regions at the time. Primarily, the projects are a timber industry development plan, which is well underway. There is a broad group developing that and I believe it is slated to receive the draft in the middle of this calendar year, so around June. There is also some branding work with the timber industry for branding of high-value wood products. I think they were the primary objectives in the program.

[4.30 pm]

Mr BUTCHER: They are listed below. Each of the projects is listed in there. There are four projects. They are well underway. I think we are launching the branding strategy for the native hardwoods with industry this week. The timber industry development plan is well advanced and should be completed in the next couple of months. The projects have been done effectively over two years and are coming to fruition this year.

Hon TJORN SIBMA: Are you able to break down the allocation of that \$500 000 across those projects as listed? Is there somewhere I can find that information? I am unable to find it.

Mr LUCAS: We can.

[*Supplementary Information No D5.*]

The CHAIR: We need to finish there. On behalf of the committee, I would like to thank you for your attendance today. The committee will forward the transcript of evidence, which highlights the questions taken on notice, together with any additional questions in writing after Monday, 26 February. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible beforehand. The advice is to include specific reasons as to why the due date cannot be met. If members have any unasked questions, I ask them to submit them via the electronic lodgement system on the POWAnet site by five o'clock Friday, 23 February. Once again, I thank you all for your attendance today.

Hearing concluded at 4.31 pm
