

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2018–19 ANNUAL REPORTS



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 12 NOVEMBER 2019**

**SESSION FIVE
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 4.01 pm

Hon ALANNAH MACTIERNAN

Minister representing the Minister for Forestry, examined:

Mr STUART WEST

General Manager, examined:

Mr GAVIN BUTCHER

Director, Operations, examined:

Mr ANDREW LYON

Director, Business Services, examined:

Mr ANTONIO DE NOBREGA

Director, Finance, examined:

The CHAIR: On behalf of the Legislative Council's Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. Today's hearing will be broadcast. Before we go live, I would like to remind you that if you have any private documents with you, including iPads and other devices, to keep them flat on the desks to avoid the cameras. Please commence the broadcast. Can each of 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.

Minister, have you got a brief opening statement?

Hon ALANNAH MacTIERNAN: No, I do not. I do know that members have a lot of questions. We will just throw it over to the members.

Hon DIANE EVERS: We will start with the first one on biological assets. I recognise on page 100, where it shows the effect of the changes in how you measure the biological assets, it also states at 9.11(a) that independent advice was sought on this accounting method and when it was decided to change it. It seems that it was just changed to prior years with no accounting for it in the current financial year, thus understating the loss of \$67 million. It shows as a prior year adjustment. Given that these biological asset revaluations were attributed to profits in previous years, why is this year different and why is it just taken out. It does not seem transparent.

Mr De NOBREGA: The biological assets is actually made up item called native forests and sandalwood and plantations. I am new in the organisation. I have been there a year. In that year, I did a bit of a study around the country and I thought to myself that the way that biological assets

was reflected on native forests and sandalwood was wrongly reflected. It is not an asset; it is a right of use of an asset. We have got no control over it. We can measure it and we can have a future economic value to it. This is according to the accounting statement 141. Analysing the statement of biological assets at 141, the area around control, it failed. Therefore, the native forest and sandalwood cannot be reflected as a biological asset. On that basis, I went and got an accounting opinion and they agreed with me and we changed it to the statement of intangible assets, which is 138, which has been reflected as a measurable item and the right of use of an asset. Therefore, that is why the value in the biological asset has been reduced by \$134 million. The methodology of valuing the asset is based on a discounted cash flow basis. It was performed and on this basis the valuation of the native forests and sandalwood changed. The basis on which it has been changed is a discounted value on native forests for 10 years based on the FNP, while the sandalwood has been based on a one-year basis valuation. That is the logic behind it and that is how the approach was done by getting KPMG's advice. Then the auditors, Deloitte, confirmed that the approach that had been done for the last 19 years was not correctly done. Therefore, we have approached it this way. The other states also do it on this basis—not all states do it on the basis that we have done it before—so that is the way we approached it and rectified the thing. At the end of the day, it is the right of use of an asset. I cannot go to the bank and go and get a mortgage on the asset, because it does not belong to me. I do not have control over it. The DCBA has control over that asset.

Hon DIANE EVERS: I agree with you completely. It should not have been valued in that way in the past. Now my question is: why was it not taken into account in the current financial year as it had been in previous financial years when it was revalued upwards? That decrease of \$134 million should have appeared in our accounts to say that that was a loss in this year.

Mr De NOBREGA: No. Because originally when it came in, the portion of sandalwood came in as a portion of equity, and the other portion of native forest came in as retained income. The portion that was reflecting sandalwood reversed back into equity and the portion of native forest was reflected as retained income. That is why the accumulated retained income is a loss. That is the portion that was reflected and not the whole amount. The basis on which it came in was the basis that it was reversed.

Hon DIANE EVERS: Okay. I see. It really reflects that all those annual reports or financial statements for the past 19 years were incorrect.

Mr De NOBREGA: That is not necessary to say. It is the methodology —

Hon DIANE EVERS: They were using the wrong methodology.

Mr De NOBREGA: Not necessarily using the wrong methodology—the methodology that they believed at that particular time to be the correct methodology. Accounting statements have evolved with time. Therefore, I think it is a bit unfair to say it was the wrong methodology or the right methodology. In today's principles of accounting statements, it is best reflected that way.

Hon DIANE EVERS: Okay. On page 15, just with regards to a comment that the “program demonstrated that threatened species were using regenerated karri forest within 10 years of harvesting”, can you tell me which are the threatened fauna species found to be using the 10-year old regrowth karri forest?

Hon ALANNAH MacTIERNAN: Who would have the answer to that?

Mr BUTCHER: I would have to take that on notice. I do not have the answer to that at hand.

Hon DIANE EVERS: Okay. I probably have a few more along that line.

Hon ALANNAH MacTIERNAN: Let us be clear. No-one has got any information on that one there? It says that 21 different fauna species have access. No-one has got information on that?

Mr LYON: We would have to go to the actual survey report, and we do not have that.

Hon DIANE EVERS: Is it possible to provide that report?

Hon ALANNAH MacTIERNAN: Can I take that as a supplementary information that we will provide? We will provide information on the threatened species that are using the regenerated karri forest within 10 years of harvesting.

The CHAIR: As described by the minister, that is E1.

[Supplementary Information No E1.]

Hon DIANE EVERS: The following question is: can that report be made available?

Hon ALANNAH MacTIERNAN: We will have to see what format that report is in, but we will certainly provide that.

Hon DIANE EVERS: The other part would be: given that it is 10-year-old forest, I am wondering about habitat and things like that—without the nesting hollows. Is there any research to show whether these animals are actually living in that area or just passing through at the time?

Hon ALANNAH MacTIERNAN: That is right. What we will do, as I said, is focus on which animals, which threatened species, were using the regenerated karri forest within 10 years of harvesting, and whether there is evidence of them being domiciled or transitory.

[4.10 pm]

Hon DIANE EVERS: The next area is page 28, with regard to the tender for the wood from the bauxite mine. I am just interested to know more about that tender—the winner of the tender and what they are intending to use that material for. I guess it is sometimes referred to as the residue.

Mr BUTCHER: I do not think that tender process has been announced yet, in terms of the award of the tender process. It has been closed and evaluated, but it has not been announced.

Hon DIANE EVERS: Is that right? It closed in August, did it not?

Mr BUTCHER: Yes, but there are negotiations on the final terms and supply arrangements. The tender process was commenced during this financial year, but it is still underway. The plan is to start harvesting wood that is coming from the clearing of bauxite-mined areas in the jarrah forest, and from the thinning of rehabilitation. The rehabilitation from Alcoa's mining has not been used over the last 30 years, so it is trying to find markets and processors. It is about both negotiating the final terms of those deals and also being able to economically harvest, particularly out of the thinning of the mine sites. As you can imagine, they are not large trees, so the economics is pretty marginal in terms of that process.

Hon ALANNAH MacTIERNAN: I think we need to clarify here that this is for the bioenergy market, so that was a tender specifically for the bioenergy market.

Mr BUTCHER: That is likely to be the end use of the process. It will be going into one form of bioenergy, although it has also potential for charcoal use.

Hon DIANE EVERS: Will that information be available when the tender is announced?

Mr BUTCHER: The tender will be on TendersWA, so it will be public.

Hon ALANNAH MacTIERNAN: I think the question is: when the result of the tender is known, can you specify the end use?

Mr BUTCHER: I think it will be fairly evident from who the buyer is, yes. That is the end use in terms of the purpose.

Hon DIANE EVERS: I refer now to page 47 and the key efficiency indicators, specifically number 3: all high-value sawlog resource processed locally. There is a target of 100 per cent and an actual of 100 per cent. Recently, we have heard that this has not been the case, and that some logs were being shipped overseas. I guess there are a couple of questions there. Will there be some sort of a correction to this, now that we know that not 100 per cent has been processed locally? Is there something that FPC will do differently to be able to monitor this and pick this sort of thing up when contractors are not doing what they are supposed to be doing as per their contracts?

Mr LYON: In answer to the first part of that—will there be a correction—yes, remembering that it was the lower volumes. I believe we had a footnote in one of these as well to say that that was there, but there will be a correction put in. As for the second part—are we doing anything differently—we have clauses in our contracts to make sure that all that is local. There are a lot of sawmills and there is a lot of area, and we cannot have people on the ground everywhere, but we have the conditions in our contracts so that if somebody is not doing the right thing, then we can do something about it. If you are asking if there is anything more we can do, I think we can show that our processes actually work and our clauses in the contracts work. When it is brought to our attention, we have the clauses in there to be able to deal with it effectively.

Hon DIANE EVERS: So not to be able to pick it up yourself, but if you become aware of it, in some way.

Mr LYON: We have processes to look for it ourselves, but again, as I say, as with lots of things in life, we cannot be everywhere at once, and we do rely on the public and the industry, and I have to say that the industry is a very good self-regulator on this, because this is what industry does; it actually value-adds to create jobs within WA. Without that, those sawmills would not exist.

Hon DIANE EVERS: Given that the marri contract has now been taken off the timber mill where this was found to be happening, and I understand there is a process looking into the jarrah logs as well, can you give me any update on how that inquiry is going?

Mr LYON: I can give an update on that, but it would have to be in a closed session. It is commercial-in-confidence.

The CHAIR: Okay, so what we might do, rather than closing the session now, is take that as a question on notice, and consider the status of the answer in the committee when we get the answer back from you, so that we can keep the inquiry flowing right now.

[Supplementary Information No E2.]

Hon DIANE EVERS: Just one further question on that. It was lovely when I asked the question about the contract for the Nannup timber mill and I was given the contract and we could see what they could and could not do. It was the same for the Auswest contract, but the whole section on value-adding was redacted. Given that we now know that Auswest was taking sawlogs and selling them to Simcoa for charcoal, I have been told verbally that that is okay—that was within the terms of the contract. But not being able to see that redacted part of the contract, I have gone away to follow that up. I am not exactly sure what I would be looking for here, but I am wondering if that fits the terms of what FPC is trying to do with our good sawlogs—to have them processed locally by using them for charcoal. It does not sound like that was the intention of that target, I would say—the high value.

The CHAIR: It looks like Mr West has a response to that, or the minister.

Mr WEST: We understand that conversation, and what is really important is that sawmills are quite a fluid business supplying logs and keeping their production going, but fundamentally sawmills pay our best prices for our products, and pretty well have a financial self-interest to convert those to the highest-value subsequent products. Within what the contracts allow—maybe Mr Butcher might be best placed to give more detail—they are allowed to move product around to some degree, remembering that they have paid for the premium product. They are not allowed to export, but they are allowed to process it locally. It would be unusual for somebody to pay a premium price for a premium product and then onsell it for a cheaper price as a cheaper product if it was not fit for purpose as a premium product. Perhaps Mr Butcher might like to add a bit, but I am trying to be helpful.

Mr BUTCHER: In this specific case, there was a consolidation of three sawmills onto one site, if you recall. Deanmill, Pemberton and Greenbushes were consolidated onto one site. It was a very ambitious plan by the company to improve its efficiency and value-add on one side. As the industry has evolved over the last 15 years, the Greenbushes site has a small log line, capable of dealing with the small regrowth logs, and a large mill. They thought that that would work, but as it turned out, they were not able to get those mills up to productivity, and they carried a large stock, and some of that stock degraded. Otherwise, there would be little sense, as Mr West has said, in paying a premium price for a product and then selling it for a low grade. But some of those logs, unfortunately, did degrade and they were not able to process them through the mill. Obviously, it was not a highly desirable decision to sell a product that they purchased at a sawlog price at a lower grade price, but the fact is if you keep your logs too long and they degrade, they are no longer suitable to be sawlogs.

[4.20 pm]

Hon DIANE EVERS: Has it been considered, then, that given they cannot sell them—I guess this is the Nannup mill as well as Auswest maybe—and the best price they can get for these logs is as charcoal suggests that maybe the demand is not there for the sawn timber and that they cannot process it at a price on which they can make their money back by selling it for sawn timber? What I am getting at here is that maybe we do not need to cut so much of our hardwood for sawlogs if there is no demand for it.

Mr WEST: I think in this situation the product at any price was not capable of being cut into sawn timber to sell as sawn timber at any price. As Mr Butcher said, they had logs that degraded to some degree through their own practices in the mill—I am not making a comment on that. At any price they could not physically convert them into sawn timber, because it was degraded. Had they gone through the process, it would have been a reject product at the end; the customer would not have paid any price for it, so it was not capable. They are financially incentivised, that is their reality, to convert it into something they can sell. Taking a loss by selling it as a cheaper product is a perverse outcome. You would assume that if they could have converted it into timber, it would have been a better price than downgrading it.

Hon DIANE EVERS: You would think so, but maybe not, given what happened with Nannup. They were saying they could not move the timber on fast enough.

Mr WEST: I guess moving forward, that site has been purchased and there is a new owner and part of the rationale behind that probably was running a sound business and who has the ability to make a good business decision. Hopefully, we will see some improvements in recovery activities. We do not desire to see that from any perspective.

Hon DIANE EVERS: Can you tell me, with the sale of that mill, were all the contracts that were in existence with FPC sold with that? Was there any change in the contracts at the time of sale?

Mr BUTCHER: Yes. The business was sold. As an entity, Auswest held two contracts with us. The entity was purchased by Parkside Group from Queensland and the two contracts went with the business.

Hon ALANNAH MacTIERNAN: You had to formally assign them, though, presumably.

Mr BUTCHER: No. This was a business purchase. This was a change of control, so they actually took over the business. It is like taking over a company.

Mr WEST: The same customer has a new owner, but it is the same customer. There was a legal review to understand whether they needed novating, transferring or the like. The legal advice was because it was still the same customer, but the customer had different owners, that was recognised in the appropriate documentation.

Hon ALANNAH MacTIERNAN: So it was the same company with different shareholders.

Mr WEST: Effectively.

Hon DIANE EVERS: The other mills, Deanmill and Pemberton, are those owned by that company as well? So that all transferred at the same time?

Mr BUTCHER: As I understand, they are leases that are held by Auswest Timbers and they were transferred at the same time.

Hon COLIN TINCKNELL: Thanks for being here; it has been a long day.

I refer to the financial highlights on page 6 and note that the commission operated at a profit in this reported year. Overall, what I am after is: what particular area of the commission's activity resulted in this operating profit?

Hon ALANNAH MacTIERNAN: Which page is it?

Hon COLIN TINCKNELL: It is page 6.

Hon ALANNAH MacTIERNAN: We have a list of the commissioners.

Hon COLIN TINCKNELL: This is the commission's activity.

Hon ALANNAH MacTIERNAN: I just want to get the page right, member.

The CHAIR: What is the question, member, and we might find the right place?

Hon COLIN TINCKNELL: What was the main activity for this operating profit? You have had a profitable year, what was the main activity that created that?

Mr De NOBREGA: I can probably help you. I will try to take you to the segment reporting page. If you look at page 61 —

The CHAIR: Maybe a number has dropped off.

Hon COLIN TINCKNELL: I would say a number has dropped off, thank you.

Mr De NOBREGA: If you look at page 61, there is a schedule of income and expenditure per different sectors. You will see native forests and I refer you to the operating profit before contribution income and amortisation of licences and forestry. You will see there is a figure of \$402 000 that native forests has contributed to the organisation. Plantations has contributed \$1.2 million and sandalwood has contributed \$5.9 million—round off to \$6 million. Those are the major factors that have contributed to the organisation ending up with a profit.

The reason I did not go to the line below that is that amortisation is just a non-cash flow item and I do not think it should be taken into consideration when you are trying to explain the figures.

Hon COLIN TINCKNELL: This question is out of order because it was supposed to be the lower page numbers questions asked first, so I am going to go downwards in page numbers instead of upwards. I refer to page 44. Like you said, there was a \$1.4 million dividend paid to the government. Last year, you paid a dividend of \$3.6 million. Why so little in this reporting period? What was the difference in this last 12 months?

Mr De NOBREGA: Our revenue was lower this year than it was last year.

Hon COLIN TINCKNELL: We are talking about a dividend that was \$2.2 million less.

Mr WEST: In the financial report year that we pay the dividend, we actually make the payment in this financial year for the previous year's activities. When we have a highly profitable year, we then have to take the payment out of the following year. There is actually a slight disconnect in that, which is a bit confusing.

Hon COLIN TINCKNELL: Thank you; that is great.

Question 2 that I have here is on a different subject really. I refer to page 16. It is about fire mitigation. Obviously, this is a priority for the commission. Can you advise what is the average annual loss of plantation forests or trees to fire? These are all related. What was the total acreage of plantation losses to fire in 2019? What sorts of species or flora have been impacted? What is the dollar value of this fire loss?

Mr WEST: We might need to take that on notice. Mr Butcher, do you have the numbers? I know over the last 10 years, on average, the number we talk about for plantation areas is around 500 hectares.

Mr BUTCHER: There are large spikes. Obviously, last year we had the Lewana fire, which was about 1 800 hectares of plantation lost. In 2016, we had the Myalup fire from Waroona. It was a very large fire that affected Yarloop as well. We lost 3 000 hectares approximately. The average may be something like 500, but it is brought up by large spikes on large fires.

Hon COLIN TINCKNELL: I was referring to that Balingup–Nannup fire last year.

Mr BUTCHER: It is what we call Lewana because of the plantation.

Hon ALANNAH MacTIERNAN: Do you have the figures for that?

Mr BUTCHER: We have the data and the actual losses.

Hon ALANNAH MacTIERNAN: Can you tell us?

Mr BUTCHER: I do not have them on me.

Mr De NOBREGA: The actual provision in the books that I have made for that particular one is about 800 000 that is left because that has been dwindled down and the Lewana one is about five million that I have made provision for recovery of that. That is in the books.

Hon ALANNAH MacTIERNAN: Sorry, you are talking about a \$5 million reduction.

Mr De NOBREGA: Yes.

The CHAIR: There were other parts to the member's question, which we will take on notice if that is okay with you, minister?

Hon ALANNAH MacTIERNAN: Just to be clear of the bits of the question we will take.

[4.30 pm]

Hon COLIN TINCKNELL: What was the average annual loss of plantation forest and trees to the fire?

Hon ALANNAH MacTIERNAN: Can I just clarify that, because if it is —

The CHAIR: This is what you call the Balingup–Nannup fire.

Hon COLIN TINCKNELL: Yes.

Hon ALANNAH MacTIERNAN: Yes, but there will not be an average, so what is the actual figure? We will give you the actual figure of the loss in terms of the area burnt. I think we have already been advised that that was a value of \$5 million.

The CHAIR: And if there is any there is any data on fauna.

Mr BUTCHER: Remembering, of course, that these areas are plantation areas, and fauna is, I suppose, less well documented compared with native forest areas, but we can certainly see whether there is any data on that.

[Supplementary Information No E3.]

Hon DIANE EVERS: I refer to page 47 and the fifth key efficiency indicator “Log delivery consistent with contractual obligations”. It makes me interested when I see this. I have no trouble with the fact that you are not selling as much as you are contracted to sell. What I am wondering though is how much you are contracted to sell. I assume this will have to be taken on notice, but is it possible that you could give me a comprehensive list of the contracts for the native timbers that we have for the range of different mills.

Mr WEST: Just a comprehensive list of volumes?

Hon DIANE EVERS: Yes, volumes per contract per mill, per species.

Hon ALANNAH MacTIERNAN: For native?

Hon DIANE EVERS: For native timber.

Hon ALANNAH MacTIERNAN: For native timber, but not plantation, so native forest.

Hon DIANE EVERS: No. I am not sure—would you say we would have plantations of native forests yet? I am not sure whether we are at that stage. It is definitely something to look forward to!

The CHAIR: Are we able to get that data?

Mr WEST: Yes.

[Supplementary Information No E4.]

Hon DIANE EVERS: I just have a numerical one; I am hoping you will just be able to explain it to me. If we look at page 134 and page 136, we are comparing native forests sawlog production for 2018–19. It is just listed differently, either by species type or by the grade of the timber. One is a total of 142 000 —

Hon ALANNAH MacTIERNAN: Can you just take us through where you are finding that figure?

Hon DIANE EVERS: Let us go with page 134 first. If we just look at the jarrah, karri and marri, because I think that is all we have got on the next page. Say, for instance, you are looking at jarrah. The final line shows 95 000 tonnes of jarrah. If you flip over to page 136 for jarrah, it just says 73 000 tonnes. Am I missing something?

Hon ALANNAH MacTIERNAN: You are saying 73 000 tonnes.

Hon DIANE EVERS: There is 73 000 tonnes of jarrah listed on page 136.

Hon ALANNAH MacTIERNAN: So you want to account for the difference? I note in this one that it is crown land and private property. Are they both crown land and private property? This is the issue here: we have tonnes of jarrah sawlogs there and then we have got a different figure of 73 000 tonnes. It is a question of what the differences are between them.

Mr WEST: I am not confident in this; we will resolve this. I wonder. On page 134 it is sawlog and on page 136 —

Hon ALANNAH MacTIERNAN: It is broken down. Are you suggesting there is a type of sawlog that is not included?

Mr WEST: Yes, I am just wondering what we might have done, Gavin, with anything to peel the product or anything like that in the last year. I do not think so for jarrah.

Hon DIANE EVERS: The karri gets a lower number on page 134 and a higher one on 136.

Mr WEST: Chair, for efficiency are you okay if we take that on notice? We will clarify that.

The CHAIR: Sure.

Hon ALANNAH MacTIERNAN: What we have agreed to do is to reconcile the jarrah, karri and marri figures on sawlog production that appear on page 134 with the similar but more differentiated product figures that appear on page 136.

[Supplementary Information No E5.]

Hon DIANE EVERS: I would now like to look at soft wood. On pages 24 and 25 we get a few numbers about your plantations. I am just interested. You have got 520 hectares on page 24 that FPC has acquired, and I understand that part of that is from DWER as well. I am just interested to know where those will be located. On page 25 we are looking at Wespine. The first paragraph after the headings —

Hon ALANNAH MacTIERNAN: Can we just do this perhaps at one —

Hon DIANE EVERS: Sure, one at a time? Okay.

Hon ALANNAH MacTIERNAN: You have a question on the softwood plantations that are mentioned on page 24 and you are interested to know where that 520 hectares is. Do we have any information?

Mr BUTCHER: You asked about the purchased land. We purchased properties in the Wellington area, so that is in the Collie area, south east of Collie in the previous year. It is called Maringee Farms. It was a former blue gum plantation area. It was purchased and a portion of that was planted last year. There is also Kin Kin plantation in the Manjimup area.

Hon DIANE EVERS: That is the name of it, okay.

Mr BUTCHER: Yes.

Hon DIANE EVERS: Those are the ones that were purchased and then the Department of Water —

Mr BUTCHER: The Department of Water is primarily in the Wellington catchment. If you recall, in the 1970s a lot of the stream zones were purchased up and planted with a range of exotic species at the time. They are now being harvested and those plantations are being replanted with radiata plantations.

Hon ALANNAH MacTIERNAN: You might actually find that paragraph there the answer to the question that Hon Colin Tincknell asked before, because it shows that 80 000 tonnes of wood was damaged by the Balingup–Nannup fire.

Hon DIANE EVERS: My next question is about page 25. It says that Wespine has purchased two properties with a total plantable area of 830 hectares, with FPC to establish plantations under a sharefarming agreement. I just want to make sure that when we work with Wespine, they buy the land and we pay them for us to put trees on the land and then we sell the trees to them at the price they choose—I mean not choose, but it is at market price. That is how it gone through this in previous years.

Hon ALANNAH MacTIERNAN: Can you just describe —

Hon DIANE EVERS: I just hope there is more in it for us than we take the risk.

Hon ALANNAH MacTIERNAN: Mr West will describe how we do it.

Mr WEST: We have a number of sharefarms existing in place already. We have tens of thousands of hectares. There are different arrangements, whether we pay annuities along the way and then a proportion of crop share at the end or not. Some of them we can pay a farmer an annual rent and we can get all the proceeds from the sale, others we can pay a very negligible annual rent and the crop share may be 50–50, maybe 60–40 70–30 somebody's way, depending on who puts what in. These arrangements with Wespine are quite new. We are not paying annuities on these sharefarms, but they are about crop share. The agreements have a mechanism for calculating the market price at the end of the day, and we have calculated that because we have to determine who gets what share of what number. We know what our costs are for inputs and Wespine know what their land purchase costs are, so the crop share is about equally sharing the revenue of a market price, not letting one party dictate a lower price and then giving us a share of a lower price. The mechanism is fairly agreed.

Hon DIANE EVERS: I think in previous years we have talked about how they set the price, and Wespine has a big influence on what that price is.

Mr WEST: Supply agreements under contract under the state agreement are very different to this. This is a timber sharefarming agreement and the wood may go anywhere, as opposed to having contractual obligations under the state agreement to supply timber under a supply contract. That was negotiated before my time.

[4.40 pm]

Hon DIANE EVERS: Would this contract be possible for me to see or is this something else that is commercial-in-confidence and, therefore, it would be completely redacted?

Hon ALANNAH MacTIERNAN: I think we will take that one on notice.

[*Supplementary Information No E6.*]

Hon DIANE EVERS: I refer to page 108, key performance indicator 3, “Effectiveness of forest regeneration”. In the questions prior to the hearings, it came back that most of this regeneration, it is done in a prescribed method from DBCA. Given that FPC has very little to do with it other than you just do what you are told to do, I do not understand why it is a key performance indicator. It is not like you can even check to say, “Is this the right thing to do?”, because the answer came back that it is DBCA telling us what to do.

Hon ALANNAH MacTIERNAN: This is about this as a key performance indicator and the proposition is that if you are just acting under instruction—I guess the question might be how well you have acted under instruction. But can you give us some insight into why this has been chosen as a key performance indicator and how you assess your performance?

Mr LYON: This key effectiveness indicator is not just targeted at native forest. It includes native forest. In previous years, before we had it changed, it was only concentrating on one part of our business, but it actually covers sandalwood regeneration, which is something that we do monitor highly. It covers the gamut of our business now, which includes regeneration in native forest and those guidelines are set by DBCA, but it also is a factor of, “Are we doing it? Are we hitting the targets for the area that we need to regenerate?” So it is looking at that. It is also looking at sandalwood as well, and the effectiveness of things like Operation Woylie where we are replanting sandalwood seeds in the rangelands.

Mr BUTCHER: If I might add also that remembering under our act we have ecologically sustainable forest management as one of our core principles and this goes to the foundations of how we are meant to operate and, therefore, it is pretty essential as a KPI for us as a business.

Hon DIANE EVERS: That raises another question about the sustainability of it. We know from the figures that it seems like there is less timber available to be harvested at the quality that it was in previous years, so if we are managing it sustainably, I do not understand why the resource is becoming of a lower quality, I suppose. Is that what we call sustainable?

Mr BUTCHER: I suppose, in essence, when you look over time—when I started in business 40 years ago, almost all forest was available. Now, about 38 per cent of the forest is available and large areas are now reserved, and that is fine. Obviously, some of the best areas in terms of ecological values and resources have been sustained in reserves. Generally, that is often forest which has been, I suppose, little disturbed and the remaining forest, which is regrowth forest and younger forest, has been retained. So, obviously, it takes a long time to grow native forest trees, and so that cycle, while it was originally planned to occur over a longer period of time, has been contracted because of the reservation process. Equally, the regrowth forest is not the same. There is not as large trees and there are plenty of opportunities for industry to adapt and it is going through that process of trying to adapt and retool to be able to deal with the different style of resource. Some of the successes we have had, for example, is now we are selling a large quantity of our karri growth resource into the LVL plant, which is producing laminated veneer lumber, using different technology. You are not relying on large logs to be processed. It is an adaptation if we want to use forests for these purposes to have the right equipment to process the timber.

Hon DIANE EVERS: If you are suggesting that this is something that has changed and we are going to have a lower quality or less of it and smaller trees and that sort of thing, would it not make sense that we are going to have to change our idea of what sustainable is? When that forest management plan came up for review in the middle of the year, if we knew that this was happening, would it not have made sense, if we still wanted to follow that sustainable path, that we would have severely reduced the amount of timber expected to be taken out of the forest?

Mr WEST: We rely on the Department of Biodiversity, Conservation and Attractions for that advice. We are implementing their plan. As a forester, I am not so confident that that is a linear pathway. When we look at ecological thinning or bushfire fuel reduction or what have you, we end up finding quite a shift in the nature of the resource, but it is not necessarily a one-to-one ratio where you might lose one tonne of prime sawlog and produce one tonne of smaller thinning logs, and it might go either way. So, you might forgo one tonne of large sawlog but for ecological reasons produce 1.2 tonnes of other matter, to reduce for ecological reasons or what have you. It is scientific and it is not trivial. I do not think it is a straight assumption to say that therefore sustainably you would reduce the volume. I anticipate a day, given the current context we are in, for fuel reduction and improvement in ecology and mine site rehabilitation and thinnings and the like, that the volumes will probably vary quite a way at different periods into the future.

Mr LYON: The FMP midterm review, as the DBCA has passed on to the FPC several times, we actually need to take more volume from the forest to keep the sustained limits, not less. We have two really good examples in Australia. We have the karri forest where we utilise and regenerate, and it is a very effective system and we get full utilisation and full regeneration. Then we have the jarrah forest where because we do not have that full utilisation, it can sometimes inhibit the regeneration, and so that affects the sustained yield. We need to make sure that we are utilising all the available volume under the FMP to ensure that we get the regeneration that is required to keep those

sustained yields into the future. There is more risk in the FMP of reducing the sustained yield if we do not utilise the timber.

Hon DIANE EVERS: I do not think you can get me to agree on that one. Maybe we have a difference of opinion as to whether we are doing a sustainable forest or a sustainable forest industry, and that could be the difference. It may be that FPC is using the word “sustainable” in terms of sustaining the industry in a sustainable way, whereas I am looking to sustain our forest, our ecosystem, our habitat, our climate.

Mr LYON: I would suggest that both are the same. You cannot have one without the other. You need a sustainable forest industry to have a sustainable forest.

The CHAIR: Member, I do invite you to bring your comments back to the annual report.

Hon DIANE EVERS: I have one directly from that now.

Hon ALANNAH MacTIERNAN: We have also managed to work out, and we are able to provide, some reconciliation of these karri, jarrah and marri numbers. Would you like to describe the reconciliation?

Mr WEST: On page 134, if we start with the karri because it is simpler, there is a superscript 3 which also talks about, down the bottom of the page, different volume classified as KOBV, which will be karri other bole volume. Whilst the total tonnes for karri on that page, as the member rightly pointed out, is 65 600, if you then go over the page to 136 and look at the right half of that page, down near the bottom, there is third-grade sawlog of 2 463 and also other bole volume of 17 000. Just my loose mathematics, that is in tonnes, so if you add the third-grade sawlog, which is 2 463, and add that to the 65 000 on the previous page, that totals the 68 000 on page 136.

Hon ALANNAH MacTIERNAN: Basically, the issue is that we have not got third-grade sawlog or other bole volume on 136.

Hon DIANE EVERS: Yes, I do not think that quite adds up. Would that make sense for the marri on page 134, which shows a higher number of 1 307?

[4.50 pm]

Mr WEST: The marri one I will have to clarify, but the jarrah one, again, I am confident, is in the additional column on page 136, in the other products there, which is why it is larger. But we can give you the actual breakdown. That is what they are trying to explain differently, and I have made a note for next year that it needs more articulation.

The CHAIR: Great.

Hon DIANE EVERS: At the bottom of page 28, where it says, “The native forest industry contributes \$220 million to the West Australia economy”, do you have any way of breaking that down to show exactly where that \$220 million comes from, and what does it include?

Hon ALANNAH MacTIERNAN: We are on page 28?

Hon DIANE EVERS: Yes, at the very bottom, just the caption for the photo.

Hon ALANNAH MacTIERNAN: You are asking for the composition of that \$220 million figure?

Mr LYON: That figure comes from Jacki Schirmer’s socioeconomic report. We can table a copy of that report.

Hon DIANE EVERS: That would be good.

Hon ALANNAH MacTIERNAN: Jacki Schirmer is?

Mr LYON: She is an associate professor at ANU.

Hon ALANNAH MacTIERNAN: And this report was done?

Mr LYON: In 2016, I think, if I remember rightly. It was 2016.

[Supplementary Information No E7.]

Hon DIANE EVERS: At page 19, with regard to the performance targets, again, it just says on page 19 that they were “achieved or largely met”; it found that the majority of the FPC’s performance targets were met, one of them with regard to the nature of nesting hollows for the breeding and the development of the young Baudin’s and red-tailed black-cockatoos, and also the recovery plans. My interest here is does the recovery plan call for the protection of all known nesting trees and not just the bare minimum of two primary habitat trees per hectare? Sorry, I wrote this a while ago.

Mr BUTCHER: This is referring to the mid-term audit; is that correct?

Hon DIANE EVERS: Yes, with regard to the mid-term review of the financial management plan. We have a lot more targets, and nesting hollows is one of them. There is this target saying we are going to keep two of them, but given how badly we are going to keep these, are there any plans to actually say, look, can we do this better, or is it just that is the number, two is all we need, and therefore that is what we leave? Because I know there has been some logging happening in Channybearup, I believe it was, where a considerable number of nesting hollows were found having been cut down, and that does not seem to fit with what you are trying to do.

The CHAIR: Mr West, in relation to the broad suggestion and the specific question?

Hon ALANNAH MacTIERNAN: The specific question of the number of nesting trees per hectare retained.

Mr WEST: Nesting hollows is one element of the whole forest management plan. Without passing this on, I think this is probably a genuine question for the Department of Biodiversity, Conservation and Attractions, because when we talk to them about the number of different types of trees being retained or being removed, of course, they are looking to manage the whole structure and the whole stand. There are different reasons why, but there are implications. If you leave more nesting hollows, there are implications for what that does for stand dynamics, and on their advice, they give us their prescription. It is not as straightforward as to say, “Let’s just leave an awful lot more of a type of tree or habitat”, without understanding the implications, and DBCA achieving their ecological outcomes, which is how they have prescribed it. I understand what you are saying. I think it is a fair question for the DBCA to say what are the implications if you increase the level of nesting habitat trees or hollows in terms of their outcomes.

The CHAIR: Member, I will leave that for you to put on notice after the hearings to DBCA.

Hon DIANE EVERS: Just the part back to FPC, though, if you are saying that you are supposed to be managing these in an ecologically sustainable manner, if you knew of these things, would you not also go back to DBCA and say, “Maybe we can do this better”?

Mr WEST: We have continual dialogue with DBCA, and we do talk about that, but that is their expertise. They are saying, “Here’s how we prescribe getting ecological outcomes from the forest”, here is what they want us to deliver for them to do that, and we do. We certainly have continual dialogue, and modify and improve that together. I am pretty proud that we are genuine, just like any of the definitions or demarcations which have not been picked up in their systems, when our staff do, we self-declare. We have self-declared certain old-growth boundaries where areas that they have not identified have met the definitions. We have said to them, “We think you have erred on the wrong side of production”, so we have added and identified. You appreciate probably better than I that it is complex, and the outcomes are DBCA’s responsibility.

Mr BUTCHER: If I can just add, as Mr West has indicated, we do take on and identify additional things to undertake. The two habitat trees is in the karri forest; I just want to make sure you recognise that. In the jarrah forest there is a minimum of five habitat trees and up to eight potential habitat trees.

Hon ALANNAH MacTIERNAN: That is in karri.

Mr BUTCHER: Two is in karri, and jarrah is separate. As certification process, obviously, we are looking at continuous improvements, so we are not just relying on the rules that we have. We seriously do take on additional things. As an example, we have undertaken a significant Eradicator program. Obviously, for fauna, cats are a very, very significant aspect of the ground fauna and a major threat, and that has been taken on as a program in all our harvesting areas. Following harvesting, there is a vulnerability to ground fauna, and we have had that program operating for a couple of years following that process. Equally, with the habitat trees, DBCA used to ask us not to—so there were not necessarily good habitat trees immediately adjacent to other areas of reserved forest, so within 100 metres or 200 metres—I cannot remember the exact number—you did not have to have the habitat trees in there, but we have incorporated habitat trees right through. So we do change the prescriptions ourselves; we do not necessarily always abide, and extend what we have to do, where there is good evidence.

Hon ALANNAH MacTIERNAN: But you are saying that you improve the standard; you do not at any point reduce the standard.

Mr WEST: We comply.

Mr BUTCHER: Exactly.

Hon ALANNAH MacTIERNAN: You comply, and sometimes you are plus.

Mr BUTCHER: Yes.

Hon DIANE EVERS: Just one final point. Mr West, you said that sometimes you suggest areas that should be considered old growth. Can you give me any examples of blocks that you have said, “Look, these really should be old growth, can you leave them, we don’t want to log them”?

Mr BUTCHER: Well, if you want us to go back, we can give you a list of the areas that our staff have nominated as old growth.

Hon DIANE EVERS: Great.

Mr BUTCHER: Obviously, as we go through the planning stage, the old-growth maps are an artefact of what they were at the time, so our staff—as do members of the community—identify areas that they think should be assessed for old growth. Since 2004, when the reservation of old growth came in, I think something like 2 000 hectares have been added to the old growth register. Based on my memory, about 1 300 have been nominated by our staff and about 700 by members of the public, but I am happy to provide that information.

Hon DIANE EVERS: I would be pleased to have that. As I note, the way we determine whether something is old growth does have its limitations for the trees and the forests in a lot of areas that really should be old growth and people who walk through there would say, “This would be great to save”, because of how you determine those hectares of old growth.

The CHAIR: We will take that as a statement rather than a question, and we will allocate E8 for that list of old growth.

[Supplementary Information No E8.]

The CHAIR: That concludes our hearing for today. On behalf of the committee, I thank you for your attendance today. The committee will forward you the transcript of evidence, which highlights any questions taken on notice and any additional questions that members may have after Friday, 29 November. Responses to these questions are requested to be returned 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 before the due date. 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 these via the electronic lodgement system on the POWAnet site by five o'clock Friday, 29 November. Once again, thank you for your attendance today. Thank you, minister.

Hearing concluded at 5.00 pm
