

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

2013–14 AGENCY ANNUAL REPORT HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 5 NOVEMBER 2014**

**SESSION TWO
FOREST PRODUCTS COMMISSION**

Members

**Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza**

Hearing commenced at 11.47 am**Mr VINCE ERASMUS****General Manager, examined:****Mr RON LUCAS****Director, Finance and ICT, examined:****Mr JOHN TREDINNICK****Director, Forest Operations, examined:**

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

The Witnesses: Yes.

The CHAIR: Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony from the committee is complete and truthful to the best of your knowledge. This hearing is being recording by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private, either of its own motion or at the witnesses' request. 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. Government agencies and departments have an important role and duty in assisting Parliament to review agency outcomes on behalf of the people of Western Australia. The committee values your assistance with this. Do any of the witnesses wish to make an opening statement? If not, we will go straight to members' questions. There are four members of the committee here and also we have a participating member, Hon Lynn MacLaren.

Hon RICK MAZZA: In the second paragraph of the chairman's report you refer to the fact that the 10-year forest management plan had expired and that the new 1423 plan was delayed in being gazetted. Can you give me a reason why that new plan had been delayed?

Mr Erasmus: The forest management plan is a 10-year plan. The previous one expired in December 2013 and the new one, which commenced in 2014, was gazetted in only the December of that year. You would imagine with the volume of contracts that you have to renegotiate that quite some considerable time is involved in putting out requests for tenders and expressions of interest, so it was due to the lateness of the gazetting of the new forest management plan.

Hon RICK MAZZA: Considering it is worth some \$90 million a year and 96 per cent of that is spent in rural and regional Western Australia—their contractors and that sort of thing—I get back to the original question: why was there such a delay? Why was it late? Because it seems to me, reading this report, that it did contract the industry for a period of time and, I am sure, put a lot of pressure on businesses surrounding the forest product.

Mr Erasmus: I will ask Mr Tredinnick to answer that. You are quite right: the value of contracts that we issue to regional and rural contractors amounted to some \$55 million during the prior year, so it was a significant amount. Maybe Mr Tredinnick will answer that.

Mr Tredinnick: It is probably worth clarifying that responsibility for the development of the forest management plan actually sits with the Conservation Commission rather than the FPC. We are a stakeholder like everyone else to the forest management plan. I guess it frustrated us as much as it

did everyone else that it was delayed that long, for exactly the reasons you describe. We are certainly agitating over the last 12 months to get the forest management plan completed as quickly as possible, but ultimately it is the responsibility of the Conservation Commission and not the FPC.

Hon RICK MAZZA: So they were the ones who were late with their situation?

Mr Tredinnick: Exactly.

Hon RICK MAZZA: Okay. The report also refers to forest protest activity having some impact. What has been the nature of that activity?

Mr Tredinnick: There has not been a lot of significant forest protest activity over the past eight to 10 months. Prior to that there was some significant activity in a couple of blocks in the Manjimup area, which was protesting against the harvesting of some jarrah in the southern region.

Hon RICK MAZZA: In the report you refer to the fact that some of the behaviour does jeopardise the safety of contractors and staff. What behaviour has there been in the past that has affected the safety of contractors and staff?

Mr Tredinnick: In two blocks—a block called Warrup in Manjimup and also in Arcadia, which is further north—we did have protestors climbing on top of moving equipment and also walking in front of equipment that was moving, and in some instances actually having tussles with some of our forest officers in front of moving equipment. It is an extreme concern to us that there is not protection around what we would describe as a normal worksite and that people can enter that worksite and cause that kind of disruption. Another sort of thing that goes on is a game known as “black wallaby”. We might have a faller in the forest, which is about to fall a tree, and a protestor will leap out of the bushes and run in front of the faller. We believe that sort of activity is irresponsible, particularly as we have had a couple of deaths in the industry over the past few years.

Hon RICK MAZZA: Are you aware of any prosecutions for any of that extreme behaviour?

Mr Tredinnick: There have not been any prosecutions. The primary tool available to the police is a move-on notice, which requires the protestor to leave the site for 24 hours. But unless we put a temporary control area in place, it is very difficult for the police to prosecute someone. That is a frustration for both ourselves and the police. The temporary control areas are, I guess, at the behest of the Minister for Environment rather than ourselves.

Hon RICK MAZZA: Would any of that protest activity have been a contributor to the delay in the new forest management plan?

Mr Erasmus: Not in my opinion.

Hon RICK MAZZA: You do not believe so; okay. The report also mentions the liquidation of softwood plantations at Gngangara and other areas in the north—some 54 per cent from memory. What measures are being taken to replace those forests that are no longer useful?

Mr Erasmus: Chairperson, I should have made the statement at the beginning that I would like the fact that I am very new in this position to be recorded. I do not have all the facts, so if I defer, please do not think I am being evasive, I just want to be sure —

The CHAIR: No, that is fine, and I think you made the comment at the very beginning that you were newly appointed, so we understand that.

Mr Erasmus: Thank you. Just on the previous question, you will note that we have an impeccable safety record. We have had a fantastic year. The first agenda item on all of our meetings is safety, safety, safety. We believe that nothing should be done if it cannot be done safely, so clearly that is very high on my agenda and our agenda, and having people moving in the forest with moving equipment around is totally unacceptable to us.

In 1996 the cabinet decided, for reasons better known to them, that we cease harvesting ultimately the Gngangara mound. It was a question of the water supply to the greater Perth region and obviously

in a country not well served by water sources, one can understand that. Presently there are many initiatives on the go with the Perth and Peel region with the development of Perth. Of late there has been significant interest in cockatoos that feed not off the natural habitat that has been cleared but now off the exotic pines that have been planted, as strange as that may sound. So there are many competing reasons why we should in some instances remove the pines, and then for the sake of the cockatoos, keep the pines in place. It is true that over time due to fire, mining activities and excision for development, the FPC has lost quite significant areas of softwood plantations through the reasons we have mentioned. We have currently engaged external parties to assist us. The exact outcome and determination of what will happen to the remaining pines on the Gngangara mound is somewhat uncertain, giving all these conflicting interests, and we are working very hard at alternative solutions for plantation establishment, and also for augmenting species, where one species is possibly a substitute for another to address contractual commitments that we and/or the state may have with some of our customers. So the answer is not exact at this stage; it is all under significant consideration.

The CHAIR: Just on the Gngangara mound, once you clear the pines, do you then exit any responsibility for that land because of those decisions?

Mr Erasmus: Assuming we were to exit the land, I would guess that would be the case, yes.

The CHAIR: But you are clearing the land—you are going through and clearing the pines and selling them to Wesbeam, I think it is —

Mr Tredinnick: That is correct.

The CHAIR: — so what then happens, because you currently manage the land that has pines on it?

Mr Tredinnick: We have responsibility for management of the land up until the clearing of the pines, and then the land basically reverts back to the management of Department of Parks and Wildlife. As Vince explained, there is a conflict between retaining the pines or replanting the pines, and also water supply into the Perth region, but then there is the cockatoo issue which we are trying to manage as well. Over the last three years, FPC has actually voluntarily invested in some additional plantings to the north of the Gngangara mound, off the main water supply area, where we have established so far about 1 000 hectares, essentially for future environmental benefits for the cockatoos, and possibly timber supply as well, and we are looking to establish another 500 hectares this year, but we do that in conjunction with the Department of Parks and Wildlife and Department of Water to make sure it is not in conflicting areas.

The CHAIR: Do you fund that yourself or is that funded through developer offsets?

Mr Tredinnick: We have been funding that ourselves, but it is an ongoing discussion with the Department of the Premier and Cabinet, because it is not core to our ongoing business strategies at the moment, but we are trying to manage the risks associated with some conflicting interests.

The CHAIR: When you leave the land, once you have cleared it, you have basically got quite acidic soils from the pines having been there. At the moment, it seems that those areas are being left. Whose responsibility is it to rehabilitate it back to—well, any state, because it is neither going back to native vegetation, nor will be used for timber production; it is just getting left with what would seem to be a fire risk, and also with issues like the tree trunks are still there?

Mr Tredinnick: The land is the responsibility of the Department of Parks and Wildlife.

The CHAIR: You do not have any obligation as effectively a lessee to restore it to some state?

Mr Tredinnick: No; we have no obligation after we have harvested the pines.

[12 noon]

Hon LYNN MacLAREN: This is also on the question of softwood—this is mentioned in your executive summary, and also on page 22—and it is regarding the central forest region. Can you give

us some more detail about what you mean by the central forest region that is being utilised for softwood plantations? Also, you mentioned 500 hectares, is it?

Mr Tredinnick: We have planted 1 000 hectares so far.

Hon LYNN MacLAREN: Where is the expansion of the plantation estate? I could not find it in the report. Where do you intend to expand? Can you let us know a bit about the time frame and how much land you plan to expand into for the softwood industry?

Mr Tredinnick: To provide a bit of context, we really have two supply regions to industry within the softwood plantations. One is the area to the north of Perth, which is the Gnangara mound, and also our midwest plantation, which is out in the medium rainfall area around Gingin. That area is the core supply area to the Wesbeam plant, which is north of Perth and which produces laminated veneer lumber. We also have a softwood industrial estate at Dardanup, which has the Wespine sawmill, which is the largest sawmill in the state and an internationally competitive sawmill, and there is a particle board plant in the same region as well. The area that supplies that mill—the plantations to the south of the Perth, in the hills, on the Harvey coast and all the way down to Albany—is what we are broadly calling the central forest region for supply. Ideally, we would like to concentrate that supply, though, to pretty much the south west region and not go into great southern. At the moment we do have plantations in great southern, which we are supplying to Wespine. Where we are considering the expansion of the estate at the moment is in that central forest region, with Dardanup being a processing hub for softwood, and trying to establish plantations within a reasonable cartage distance of Dardanup. The other advantage of that area is that it is a lot safer, if you like, in terms of the impacts of climate or climate change on plantations going forward. We have had the experience over the last 12 months of a significant area of plantations in the midwest zone dying as a result of drought. That does not seem to be a good area to focus effort; we are looking to get out of that area and to focus a plantation estate in areas that have better growing conditions. It also happens to be around the hub of Dardanup with the sawmill and the particle board plant.

Hon LYNN MacLAREN: Can you indicate the time frame?

Mr Tredinnick: A base case scenario is that we have about 75 000 hectares at the moment in total supplying those two sites. We are liquidating, as we talked about, the Gnangara mound, which is currently about 11 000 hectares, and we also have the share farm estates in the lower rainfall regions, which generally are not in places where we would want to plant in the future. If we did not replant those share farms and we continued to liquidate the Gnangara mound, we would probably have an estate of about 40 000 hectares left if we did not take action now. We believe that we need probably 60 000 to 70 000 hectares as an estate to support an internationally competitive industry. Our internal plan at the moment is that we would like to plant at least another 20 000 hectares over the next 10 years. That is currently before the FPC board and is also the subject of an external review that going on as well on the whole FPC business. We are hoping to have the decision or the direction by January or February next year. If I were to speak from a personal point of view, I would say that what we need to do is establish about another 20 000 hectares over a 10-year period, and that would then provide an ongoing sustainable resource that could feed an internationally competitive industry based around Dardanup.

Hon LYNN MacLAREN: Are you saying that by January you will know where you are looking at expanding the plantation?

Mr Tredinnick: Certainly it makes sense in terms of geography to expand within probably a 150-kilometre radius of Dardanup, would be the best way to describe it. But if you go 150 kilometres too far east, you are going to hit the sorts of zones we do not want plant in. So, it is in that zone. There are some opportunities there, particularly with the blue gum industry now harvesting and exiting some of the land that was previously planted to blue gum. Some of that land is very good for

pine, so we see an opportunity there to change some of the land use with existing plantations and develop a pine estate.

Hon RICK MAZZA: You mentioned the midwest being a drying area and reducing the plantations. Have you been able to establish the value of the biological asset impact at this point in time?

Mr Tredinnick: Of the drought?

Hon RICK MAZZA: Of the midwest plantations. What has the impact been on that asset?

Mr Lucas: Each year we have to do a valuation of the biological asset in accordance with Australian accounting standard 141, and at the end of June last year, we took into account the impact of the drought in the midwest and we wrote down the value of the plantation by three-quarters of a million dollars. It is actually disclosed in the notes and in the accounts, and there is also a note under “subsequent events” that refers to it as an ongoing event.

Mr Tredinnick: In terms of area, it is not a proportional impact on our biological asset valuation, because it is slow growing and it is a reasonable haulage distance from the Wesbeam plant, so it is not our most profitable area by any means, and so its contribution toward the valuation is therefore not proportionate to the area. Certainly the plantations in the central forest region have a far greater contribution to the asset valuation.

The CHAIR: Just to finish on the softwood plantations, have you identified sufficient resource to meet your requirements under the state agreement act with the Neerabup plantation of Wesbeam? My recollection is that you did not have on the Gngangara mound quite sufficient softwood resources to meet the obligations under the state agreement act.

Mr Erasmus: Chair, I will go first and then John will fill in the detail of that. Clearly, as I explained, the exact outcome of the Gngangara mound is not known. If there were to be some external intervention and we presently stopped harvesting, it would exacerbate the situation, as you would well understand. Mr Tredinnick said we are looking at planting additional areas; and, in addition to which, cabinet came out with decision in 1996 that the FPC should cease expanding their share farms. It is our opinion, under consideration, that some of those share farms have a lower future value for FPC, given the geography, the species or the particular performance of that plantation. Mr Tredinnick also said to you that in, for example, the Dardanup area, the Wespine sawmill, for interest’s sake, supplies something like 70 per cent of Perth’s building lumber. So for us it is really critical that we support that industry going forward. So wherever there are share farms that, in the first instance, are better suited to growing pine than they are to whatever species is presently there, we will know that we should convert that species to the one we need and continue with that share farm. Similarly, there are certain share farms that have, in our opinion, a very low future economic value. The answer to your question is that all of these considerations are under thorough review at the moment, subject to the outcome of the Gngangara mound and future of the pines. The answer to your question is not exactly understood at this stage. We are in discussion with the various parties involved with Wesbeam; they are well aware of these considerations. Again, the outcome of that should be known in early 2015.

The CHAIR: I guess my point is that I understand the issues of if you were to stop logging the Gngangara plantation, but even if you log all the Gngangara–Yanchep plantation, my understanding is that still does not provide sufficient wood to meet the obligations under the state agreement, so there was a need to identify further resources to provide for that mill. Have we identified those further resources yet, because we have to find those, and then also worry about whether or not you can actually access the Gngangara trees?

[12.10 pm]

Mr Erasmus: There are a number of initiatives we are thinking of at the moment. In the first instance, they rely on a mixture of *Pinus pinaster* and *Pinus radiata*. The one has greater strength

properties, so when they mix them, they have a desired strength for the product they make. We have an initiative with them at the moment where they are trying hardwoods—karri, because of the superior strength of the eucalyptus product—to try to blend that in. Obviously, they need some technical innovation in the plant to be able to accommodate that. We do look at transporting resources from further afield, but obviously we are challenged by the different economics of doing that. So, again, working with the particular contract holder, we are working through these technical possibilities.

Mr Tredinnick: I guess it is fair to say that there is not a simple answer to the question because the supply zone for Wesbeam actually overlaps the supply zone for Wespine. So while we treat the Wesbeam supply zone as being a fairly discreet area, in a contractual sense if there is an impact on supply, we probably cannot say that it is restricted to an impact on Wesbeam. In terms of those impacts on supply, supply to Wesbeam from the north comes from two specific areas: there is the Gngangara mound supply, and then there is the midwest plantations. The harvesting scenario is such that we would first liquidate the Gngangara supply, as per the 1996 cabinet decision, and then move on to the midwest plantations, which will mature and then be able to feed the resource for the duration of the state agreement. There are factors impacting on the supply from both of those areas. In the Gngangara area, we have had drought effects over the last couple years, and we have had fires, that have reduced the availability of resource—cockatoos and everything else aside. In the midwest plantations, as I described before, we have also recently had some drought effects. If you look at those plantation areas together, we do not have as much resource available there as we would hope to have, because of those effects, which we believe are force majeure effects under the contract. So, we are talking to Wesbeam about what we can do to provide additional resource, such as the hardwood, in order to make up the balance.

Hon RICK MAZZA: I was just going to ask, on that very question, if we are having less forest products available, has been any work done on what effect it has on the affordability of housing?

Mr Tredinnick: It is a very good question. No, there has not been any impact on that. I do not think the impacts will be felt. If we just did not do anything and we kept going without sourcing new land and planting new areas, then, yes, our supply to the industry would probably reduce by about 30 per cent. The area might reduce by half with some loss of productivity, so there will be an impact on the amount supplied. I think you will find that the Wesbeam plant predominantly supplies the east coast, but Wespine, as Mr Erasmus said, largely supplies the Perth market, and there would be an impact on that, because if the Wespine plant was not to continue because it could not be of sufficient scale to be competitive, we would be at the whim of international markets. So when we have a global financial crisis that affects Europe and the US, we might actually find we get cheap timber in, but as international markets pick up, we would be subject to those influences and cost will increase.

Hon RICK MAZZA: How many hectares of plantation are planted on ESAs?

Mr Tredinnick: Planted on ESAs?

Hon RICK MAZZA: On designated environmentally sensitive areas. I know of one area, so it is not like there are none. Is there any data available of how many hectares of environmentally sensitive areas are under tree plantation?

Mr Tredinnick: We would have to take that question on notice.

[Supplementary Information No B1.]

Hon RICK MAZZA: The other thing I want to ask you is about bushfire. You said there are 3 000, I suppose, back burning or prescribed burning and bushfires that the department has attended over the last year. Do you charge that back to parks and wildlife and FESA or do you actually absorb the cost of those fires?

Mr Tredinnick: When it is on public land and not on the plantations where we have responsibility for the trees, we charge it back. Similarly, if there is a fire within our plantations with our standing timber, we might get charged for other people's services on that land. But when we attend fires in native forests, we charge that back to parks and wildlife.

Hon RICK MAZZA: How many firefighting trucks do you have?

Mr Tredinnick: We have two large tankers, and we have many slip on-units. I could not tell you the number, but it would be 20 or 30 slip-on units that we have.

Hon RICK MAZZA: In the report it says you have got two trucks that have been fitted out with a sprinkler system and other safety material. Are you planning on expanding that level of safety to other trucks or is only to the two tankers you are talking about?

Mr Tredinnick: We have only got two trucks.

Hon RICK MAZZA: Okay, so the rest are just slip-on mobile units.

Mr Erasmus: Obviously when our staff go out to attend fires for the good of the state, we do suffer the fact that they are not there for their normal work. With the 3 000 hours that they are away, some of that is during working hours, so that is at a cost to us—a hidden cost, if you will—from not having those staff available.

Hon LYNN MacLAREN: I would like to take you back to the operational performance of the FPC, which starts on page 40. I have a series of questions about south west native forests. In here you make mention of a major sawmilling and timber processing industry or business that closed. Could you identify that business and the factors leading to that closure?

Mr Erasmus: Again, I will hand that over to Mr Tredinnick for the finer detail, but of course with the Whittaker sawmill that closed, my understanding, and John will fill in, is that due to the changes of the location of the resource and the transport distances involved, and a couple of the grades of timber that they were presented with during the last forest management plan, in addition to private considerations that the owners of the business may have had, they decided to close their business down.

Hon LYNN MacLAREN: They independently decided?

Mr Erasmus: It was a privately owned company. They came to a decision; they terminated their business.

Mr Tredinnick: Probably the best way to describe this is that the native forest resource available to supply the industry is probably distributed evenly between north and south, with the boundary being the Preston River. At the start of the last forest management plan, which started in 2004, for whatever reason the industry was structured such that there were three large jarrah mills in the south—the mill at Deanmill, which was initially owned by Sotico and then Gunns and now Auswest, the mill at Nannup, and the mill at Greenbushes. We have probably had about 70 per cent of the processing capacity—perhaps more in the south—but the resource evenly distributed. The cost of getting those logs from north to south became a factor in the viability of those mills. It was recognised, probably over the last four to five years as industry tried to make this work, that there was one too many mills in the south. Logically there should have been only two mills in the south and one larger mill in the north. When Gunns shut down their operations at Deanmill, and there were only two mills running for a period of time, Nannup and the Greenbushes mill, it worked reasonably well, and the Whittakers mill at Greenbushes was making a profit at that time. When the Auswest mill at Deanmill started again and started to take that resource from the south, Greenbushes again had to get logs from the north at a higher cost and a lower quality, and they could not make their business work. The owners then decided to exit the industry. There were also some other factors going on with the owners as well, but they came to us and said that they would like to exit the industry at that point in time.

Hon LYNN MacLAREN: You mentioned one of the factors is the change in the international market price of hardwood woodchips per year. You might have to give me this question on notice, but I was wondering if you could provide me with the change over the last 10 years in that price per year and, also, what are the factors behind that decline in the international market price of hardwood woodchips?

[12.20 pm]

Mr Tredinnick: I guess with any market prices, both demand and supply factors, that price started to decline—most of the woodchips from Western Australia up until recently were going to the Japanese market, and two things impacted the Japanese market. One was the global financial crisis, which just generally slowed down the economy, and the other factor was the tsunami which occurred in, I think, 2009–10, and the result of that was there was some rationalisation of the pulp industry in Japan—particularly Nippon Paper reduced its number of mills and reduced its demand. On the supply side, there is a vast area of hardwood plantations which have become available in Vietnam. They have been grown over a six or seven-year rotation and, obviously, it is closer to Japan; it is closer to China; and the cost of growing is cheaper. As that wood became available, that affected the supply side of the equation as well. The result of those two things is that the price came down, together with the strengthening of the Australian dollar, which did not help over the period also. So, that has pushed the price down. We are now seeing the price come back up. It is a cyclical thing, so it is a spot market. It is a cycle. The price went down. We are now seeing signs that it is going to come back up again. As far as the actual prices, we will have to come back to you on that because while the plantation hardwood price is reasonably publicly available, the actual FOB starting price of karri woodchips is not as transparent, so we will come back to you on that.

[*Supplementary Information No B2.*]

Hon LYNN MacLAREN: I would appreciate those numbers on notice.

The report I have, which was prepared for Macquarie Forestry Services Pty Ltd by Industry Edge, is “Australian Hardwood Chip Export Volume & Price Forecasts and Stumpage and Harvest Cost Review”. It just struck me that this report indicates that hardwood chip export prices to Japan are on the increase. They went up from an annual price of \$170 per tonne and they are estimated to go up to \$183 per tonne. I think that contradicts something in the report which indicated that prices were not that good. I was wondering what figures you were using.

Mr Tredinnick: There is another factor in this as well. As the Japanese demand reduced, some of the chip we were supplying went to China rather than Japan, and the Chinese price always sits a little bit below the Japanese price. When you change markets, the price also drops. What Industry Edge has said is actually consistent with our observations that the price did go down and was down over the financial year for this report and we are seeing it come back up. If we can get access to the Japanese market going forward, we also expect a price premium over what we get from China.

Mr Erasmus: I would like to add to that. In my prior employ as the chief executive officer of what was Elders Forestry, I was responsible for negotiating the plantation woodchip price with Japan for a number of years. A subject of a different inquiry elsewhere was the demise of the company Gunns and it was suggested in those inquiries that for cash flow reasons at the end of their corporate life, Gunns went and significantly dropped the price of woodchips in Japan. As an alternative Australian supplier, you would be competing against a Tasmanian company that reset the price to a significant lower level. As Mr Tredinnick said, you are looking at exchange rates, you are looking at supply from Vietnam and you are looking at when Gunns reset the price, and we would have been in direct competition with those prices.

Hon LYNN MacLAREN: Can I ask you then about new markets, because you make mention of a number of proposals identifying new options for residual timber products. I wondered if you could fill us in about those.

Mr Erasmus: In the first instance, as a forest products producer, we like to produce the highest value product. Of primary interest to us is to get the right value for the tree to return the maximum returns to the forest. In the first instance we would like to secure peeler logs and see them go through veneer peeling plants where we get far higher revenue than sawlogs and residue. It would not be correct to say that our primary focus was to get our highest value for residue. Obviously, we would chase the highest value and residues should ordinarily find their ways into these markets. We obviously are expecting the woodchip price in Japan, as we said earlier, to rise, so we will pursue that. Would you like to add anything on alternate residue products?

Mr Tredinnick: I guess we have been successfully increasing our sales of residue products from our integrated operations over the last 12 months. One example is the one we mentioned before with the supply of karri to Wesbeam. That karri is actually coming from the first thinning log, which would have previously gone to the chip mill. Particularly as the supply of larger resource from mixed tropical hardwoods reduces in the tropics, there is a lot greater interest in developing technology that will actually process smaller logs, particularly for peeling to make veneers. The karri resource is ideally suited to that—as we are finding with Wesbeam's interest in actually peeling the smaller karri logs to put into the laminated veneer lumber plant. We are very hopeful of expanding on that a bit further as far as veneer markets are concerned.

We have been actively exploring another product called engineered strand lumber, which is, basically, a breakdown of the tree, of the fibres, and put it all together again into a structural product. The problem we have, though, is largely with scale and proximity to the markets to which we take that product. There are more attractive places, quite frankly, to build those plants at the moment, but we continue discussions with producers. That would also be a good product and would also start to substitute for some of the solid structural timbers that we have produced from both softwood and hardwood at the moment.

Then you get down to the, I guess, new products such as ethanol and biodiesel et cetera, which we have been looking at. We have looked at that with a few proponents but really the numbers are not there. We would have to give the timber away or pay someone to take the timber to make that work right now. They are really markets that would only work if you have got a significant subsidy involved.

The other thing which we have been pleased about is—we actually probably undervalue the fact that we have one of the best native forest residue markets probably in Australia with the Simcoa plant where the jarrah is actually used in the production of silicon. It is a primary input to the production of silicon and we have had ongoing discussions with Simcoa about how they can actually take more of our jarrah residue, and we have been successful in getting more residues from our integrated operations in the Simcoa plant recently, which is pleasing. I think because it is under our nose, we sort of tend to look for new opportunities, but, in fact, having discussions with that plant, we have been able to expand the supply, so that has been pleasing as well.

Hon LYNN MacLAREN: Can I just finalise those questions on new markets by asking you to focus on the value of hardwood in the international market. What steps are you taking, if there are any, to increase the value of the hardwood? Also, have you identified any new markets for that?

Mr Tredinnick: I think that is a terrific question. I mentioned before, we are going through a bit of a review at the moment in terms of how we can improve the profitability and the viability of our business. I think you need to start with the fact that we are producing some timbers which have some unique colours, some unique properties, and we should be positioning them in the market in niches where we maximise the value of those timbers. As an industry, if we continue to try to produce solid decking, solid flooring products and other things which can trade in a commodity market, we are not necessarily making the best value of our industry. Some of the customers we sell to have been exploring some engineered wood products and making some very good advances in the production of engineered wood products for joinery—again, different sorts of flooring products.

We have less hardwood timber going into the board, so it is stretching the product further. But I think there is also a really good opportunity to brand our unique species a bit better than what they currently are in international markets. The short answer to your question is I do not think we have done enough in that area, but I think there is enormous potential to actually improve the value we can put back in the supply chain by looking at that end of the market.

[12.30 pm]

Hon LYNN MacLAREN: Do you have any further materials that indicate what you have done in this direction to brand our unique species? What work have you done there?

Mr Tredinnick: We can probably supply this to you outside this briefing. Again, probably not enough within FPC. We have been working with our customers who have been producing brochures on new engineered products they can produce. We can get you some links to websites from them. But as FPC, I do not think we have done enough.

The CHAIR: Was that going to be supplementary information?

Hon LYNN MacLAREN: Yes.

[Supplementary Information No B3.]

chai: I was going to jump in with a question myself, if that is all right. On page 5, the former managing director made the comment that the Western Australian forest industry continues to be a couple of things, but one of them was commercially viable. Across your operations I think that is probably a reasonable statement, but when I look at page 131 of the annual report it shows in the south west forest that you made a loss of \$14 million this financial year, or in the one just gone; and the year before the loss was \$15 million. How commercially viable is the south west forest?

Mr Erasmus: Chairperson, let me have a go at it and then my accountant will tell you about the mysteries of the accounting science. The south west forest —

The CHAIR: Or try to bamboozle us with it anyway!

Mr Erasmus: The south west forest has, since 2001 to 2014, generated an operating profit of \$68 million for the region. Last financial year there was —

The CHAIR: Sorry, an operating profit?

Mr Erasmus: An operating profit of \$68 million over the 14-year period, and in the life of the —

The CHAIR: You said for the region, though.

Mr Erasmus: The benefits of that have —

The CHAIR: That is for your —

Mr Erasmus: Exactly.

The CHAIR: I am just trying to understand it. Is that a profit to the Forest Products Commission or are you saying that is the net benefit to the region?

Mr Lucas: This is the profit before biological asset valuation movements, because that is essentially a book value which is not cash.

The CHAIR: Revenue over expenses.

Mr Lucas: Yes. That is what government judge our dividend payments on.

The CHAIR: You have collected \$68 million.

Mr Lucas: Yes.

Mr Erasmus: We will get to the forest valuation as we go. During the life of the previous FMP, the operating profit from those native forests was \$55 million. During the last financial year—2013–14—the value of contracts awarded to individuals and companies in the south west was

\$55 million, so a significant flow of funds into regional Australia. The \$14 million adjustment to the value of the forest, Ron will explain that in clear detail, but that is the value of the forest as it stands today, taking today's price into account. It adjusts by accounting standards the deemed value of the forest at today's value. If the woodchip price goes up by \$10, then in theory you would have to readjust the value of the forest. I would like to impress on you that that is a non-cash item; it is not cash that is immediately available. Ron, do you want to go into a bit more detail?

Mr Lucas: Even the accounting profession has its own views on AASB 141 and its impact on the readers of statements of comprehensive income. We are forced by accounting standards to put a fair value on the value of the timber each year. That can significantly move. If discount rates change by one per cent, it can put \$18 million on or \$15 million off the valuation. That has to be washed through the statement of comprehensive income. If you are looking at the bottom line in the statement of comprehensive income for FPC, it is not really a good measure of how we are performing and profit. You have to go one line above that, which is profit before biological asset movements, and look at that figure. That is really the cash figure that we are getting. Essentially it is cash FPC has to meet its commitments. That is what the government, in their wisdom, have based our dividend payments on—operating profit less tax at 65 per cent. They do not consider the bottom-line figure. If the discount rate dropped by one per cent, our valuation goes up, say, \$20 million; how do we get the money to pay 65 per cent of that in dividends? We cannot. It has gone up —

The CHAIR: If you were Western Power, they would just make you borrow it. But anyway.

Hon LYNN MacLAREN: That was yesterday!

Mr Lucas: But they do not have biological assets that have value. It is unique to us in government.

The CHAIR: The corporates on that list, though, that is also running at a loss. What is the corporate and why is that separately taken out rather than a component of corporate attributed to each one of those three?

Mr Lucas: That segment analysis provides the operating profit contribution to the cost of running the corporate for the organisation. With our cost in corporate, if you look at the individual business as a commercial operation and sold them off, we would have to attribute some of the cost to finance HR contracts et cetera in the corporate services to the operating profit contribution from the business segment.

The CHAIR: But in terms of trying to give an ongoing picture of how you are doing, surely you should be allocating those costs of borrowings or whatever else into the individual business unit.

Mr Lucas: Acknowledged.

The CHAIR: If you add that in, the south west forest—even last year there was a \$1.7 million loss plus a share of the corporates' \$3.8 million loss.

Mr Lucas: In the biological asset process, we allocate a cost to the corporate into that. For native forests, that is about \$2 million a year. If we go back through the operating profits in past years, south west forest is still making a profit even after the allocation of corporate. But in 2014 it is a different picture because of the downturn in the native forest industry and we are expecting it to recover. Basically \$1.7 million; if we were to allocate the cost of corporate, it could be \$3.7 million. If you go back, it is positive in the past. Back to 2006, it is still making a significant profit.

The CHAIR: What is the percentage that would be allocated to each of the three areas of your main business unit?

Mr Lucas: Native forest is 20 per cent of adjusted EBIT—earnings before interest and tax. Sandalwood is, I think, nine per cent and plantations is 17 per cent. It leaves a cost in corporate of about, in a standard year, \$5 million or \$6 million which is really the cost of FPC—a government trading enterprise situation.

The CHAIR: Are you able to give us a reconciliation about those claims that you are saying; if you go back over history that you are making an ongoing profit?

Mr Lucas: Yes. We can certainly go through the annual reports and provide you with the list of the operating profits.

The CHAIR: And then that reconciliation with the corporates?

Mr Lucas: Yes. I have only been there four years; I am not sure how far back we go.

The CHAIR: That would be enough, four years.

Mr Lucas: We will go back three or four years.

[Supplementary Information No B4.]

The CHAIR: On page 73 of the report it talks about an equity injection from government. Is that just your retained earnings or is that actual cash payment?

Mr Lucas: Is that the \$4.7 million, or are you talking about the \$10.6 million? There are two there, one for 2012–13 and one for 2013–14.

The CHAIR: I am just trying to find it.

Mr Lucas: I think it is on page 72. There is \$4.7 million in 2012–13, which is when the cabinet made a decision on the restructured FPC in 2010; they decided to give the FPC \$4.7 million a year for three years to help with second-rotation plantation establishment. That is the contribution for 2013–14. In 2012–13 the \$10.6 million is actually consisting of two 4.7s plus a balance of money for the right sizing of FPC in terms of FTEs.

The CHAIR: But in terms of those equity contributions, how do they then flow through to your profit and loss?

Mr Lucas: They do not. In an accounting sense, contributions from owners is not a statement of comprehensive income; it is like a shareholder's injection which goes through a balance sheet and goes through your equity statement.

The CHAIR: Right, so is that an actual cash payment from the government?

Mr Lucas: Yes.

[12.40 pm]

The CHAIR: So what has been the contribution in equity over the last couple of number of years, though?

Mr Lucas: Yes, I can tell you that.

The CHAIR: I tried to find it earlier.

Mr Erasmus: If I may add a view whilst Ron is doing that, having spent some 30-plus years in corporate and private business, I would offer that at least 50 per cent of our corporate overhead would not be required by a private company in operating a business of this nature. So, I would suggest to you that it is 50 per cent of the corporate charges, and they are executed by the FPC in the interests of the public good. If we were a private company, we would not have those expenses.

The CHAIR: So in what sort of things?

Mr Lucas: I did not quite grab the question.

Mr Erasmus: Things that we do at FPC that we would not do if we were a private company.

Mr Lucas: The effort involved in supporting the government questions, the board, that sort of arrangement—well, not the board, because private industry have boards—the extra effort involved in supporting a government trading enterprise that you would not have in a commercial operation. That is why I said before —

Hon ALANNA CLOHESY: Not what?

Mr Erasmus: Corporate social responsibility. For interest's sake, we spend approximately \$4 million a year on building roads. We use the road once when we harvest the timber, or we improve it, and that road stays permanently for the good of citizens for fire protection, for forest access, and for general public access.

Hon ALANNA CLOHESY: That is a bit unusual, because, you know, Rio Tinto, FMG, a whole range of private companies, also contribute to infrastructure in some ways.

Mr Lucas: Yes.

Hon ALANNA CLOHESY: What else would not be contained?

The CHAIR: How would you get your product out without that road being built?

Mr Erasmus: We would, but it does not sit on our balance sheet and it does not enhance the value of our business.

The CHAIR: But you would still have to expend the money on building the road, would you not?

Mr Erasmus: Yes, we would.

Mr Lucas: To a standard.

Mr Erasmus: It would be an asset on our balance sheet.

The CHAIR: Right, and then do you maintain the road or does the Department of Parks and Wildlife maintain it?

Mr Erasmus: Once we have completed the harvesting, we do not maintain it any further.

The CHAIR: I am unclear about that, other than it sits on your balance sheet. Are you depreciating it? If you were a private company, you would just put it as an operating expense, I would have thought, rather than an asset.

Mr Erasmus: Correct.

The CHAIR: In the sense that you have to build a road —

Mr Lucas: We do expense it, yes.

The CHAIR: So you expense it?

Mr Lucas: We expense it. It is in our statement of comprehensive income. For the biological asset valuation, we look at the corporate services and we make judgements on the people involved and the expenditure involved, and, if we were a private business, what element of that would relate directly to each forest sector, and that allocates about half of the cost into the forest sector. So, the balance of the cost is there because we need to support a government trading enterprise operation, and it is just —

The CHAIR: So what is the cost of being government trading enterprise to you, then?

Mr Lucas: I would think in the order of \$4 million to \$5 million.

The CHAIR: Are you able to provide us with a bit more to that?

Hon ALANNA CLOHESY: A breakdown.

The CHAIR: Maybe as a question on notice?

Mr Erasmus: Yes.

The CHAIR: I will make that B5 as to what is the cost of being a government trading enterprise.

[Supplementary Information No B5.]

Mr Lucas: For us; I am not sure about the others.

The CHAIR: No, no.

Mr Erasmus: And what activities we conduct that we otherwise would not have conducted.

The CHAIR: Yes.

Mr Erasmus: We will do that.

Mr Lucas: In answer to your question on what equity contributions FPC has received over the years, that is available from the Treasury budget papers. I have some notes here which show that in 2011–12 as part of the restructure the government paid out FPC debt, and a contribution of \$87.5 million was actually made in government equity contributions to FPC; and \$10.673 million, which you can see in our report, was received in 2013–14. That was \$9.4 million for second-rotation plantings and \$1.2 million for downsizing of FPCs FTEs. We also received \$4.7 million in 2012–13.

The CHAIR: Is that cash?

Mr Lucas: Yes.

The CHAIR: They are cash, so does that then show up in your statement of cash flows?

Mr Lucas: Yes.

The CHAIR: In terms of that breakdown by asset, or your business unit on page 131, would any of that then be reported as revenue?

Mr Lucas: No; that is a statement of comprehensive income view, not a cash flow view.

The CHAIR: Yes.

Mr Lucas: It is a profit and loss view, not cash flow—different view, different statement.

The CHAIR: So it will not be showing in there?

Mr Lucas: Yes. The intricacies or the uniqueness of accounting is that an equity contribution is debit cash, credit equity.

The CHAIR: Yes.

Mr Lucas: Revenue, debits, revenue or credits, revenue, debits, cash.

The CHAIR: All right. Also in terms of the changes in the amount of debt you wrote off —

Mr Lucas: Accounts receivable?

The CHAIR: Yes. I am trying to find it again now. I think it is note 42.

Mr Lucas: The \$4 000?

The CHAIR: Yes, and the previous year you wrote off \$155 000.

Mr Lucas: Yes. What would you like to know?

The CHAIR: What was that? What was the \$155 000 and then the \$4 000?

Mr Lucas: The \$4 000 in 2013–14 consisted of one timber customer at \$1 254, which was the balance of a debt to be written off, but the major part of that was written off in 2012–13, which sits as part of the \$155 000. The balance of the write-off in 2013–14 was from a protestor that was supposed to make contributions in the court, but we ended up writing the debt off.

The CHAIR: All right. I also note on page 70 under “Other revenue” there is about \$9 million. A lot of that, when you go across to pages 96 to 99, seems to be one-off.

Mr Lucas: It is.

The CHAIR: And, again, that is not shown as part of your cash.

Mr Lucas: It is, yes.

The CHAIR: Would that then be a cross-reference to page 131 as revenues?

Mr Lucas: Yes, the one-off is included in corporate in the \$7.395 million on page 131.

The CHAIR: As revenue?

Mr Lucas: Yes.

The CHAIR: So that would be shown under corporate, would it?

Mr Lucas: Yes. I can tell you what it is, if you like.

The CHAIR: Yes.

Mr Lucas: It was an Indian sandalwood research plantation sold in Kununurra, which brought in \$3.85 million; and then there were two settlement payments from past fires, which we received in 2013–14 as well. That is why they are shown under corporate, amounting to —

The CHAIR: That would mean that without those, your corporate loss would have been even significantly higher?

Mr Lucas: Yes, it would revert to previous years' levels, yes.

The CHAIR: About \$7 million?

Mr Lucas: Yes.

Hon PETER KATSAMBANIS: Looking at a report in 2013, the Auditor General found that the commission's monitoring practices were limited, and identified a series of incidents of inconsistent product recovery that weakened the effectiveness and efficiency of harvest planting processes. That was the supply and sale of Western Australia's native forest products. What has the commission done to address those concerns and to improve the planning efficiency? I realise that as the general manager you might not have been in the role that long.

Mr Erasmus: No, I do not know.

Mr Tredinnick: I think work was actually done—I am surprised at the date of 2013; I think it was some work that was probably done in 2012, when we were first alerted to the issues in 2012, which was just about the time I started with the FPC—and there were some concerns, I guess, that some of the higher-grade timbers were being sold as lower-grade timbers, and there were a few other things going on in that space. We have implemented a project where we now have one person dedicated to, basically, the audit of our recovery activities on the log landing to ensure that the right product goes into the right grade. I guess we were not totally convinced with the findings of the Auditor General's report—there is a bit of correspondence on that side—but we have responded as if there was a problem, and we have put additional people in charge of, essentially, an audit role, to ensure that we are putting the right product into the right grade.

Hon PETER KATSAMBANIS: Perhaps you can take on notice and provide a response on all the actions you have taken to address the issues raised in the June 2013 report.

Mr Tredinnick: I think it is probably worth us tabling some correspondence with the Auditor General as well, where we did, sort of, take issues with some of the conclusions of the report.

Hon PETER KATSAMBANIS: You can include that in the information that you provide.

[Supplementary Information No B6.]

[12.50 pm]

Hon LYNN MacLAREN: Page 9 of this report that you are referring to does state that the FPC accepts the Auditor General's report and has reviewed associated policies and procedures and commenced a project to roll out.

Hon PETER KATSAMBANIS: Yes; and then I was going to say that the issues may have been raised during the audit process, but the report still came down in June 2013.

Hon LYNN MacLAREN: And the FPC accepted it, so this is the first we have heard that there was any dissent.

Mr Tredinnick: There was some considerable dialogue at the time that we were —

Hon PETER KATSAMBANIS: Was that during the conduct of the audit or post the tabling of the report?

Mr Tredinnick: I would have to go back and verify that.

Hon PETER KATSAMBANIS: Perhaps you could also clarify that as a separate question, as to whether —

Hon ALANNA CLOHESY: We will get a copy of the correspondence.

Hon PETER KATSAMBANIS: Yes, that would help, too. A separate question could be whether the FPC actually had concerns about issues raised in the report after the tabling of the report.

Mr Tredinnick: Yes, look, I think we will have to go back into the files and have a look. Just as an example, one of the issues was that we were presented with a report to review from the Auditor General that had certain areas blacked out because they were not deemed to be sort of relevant to our department. When the report was then released, we had a look at those areas that were blacked out, and they were actually critical of some of the things that FPC was involved in. So we will go back and get that.

Hon PETER KATSAMBANIS: Yes, the correspondence.

Hon LYNN MacLAREN: Mr Katsambanis, can I specifically ask for one thing. As part of that question that we have identified relating to how far the FPC has progressed with contract performance—this was probably the first dot point on page 8 of the executive summary of that Auditor General's report that the member is referring to—could you give us a progress report? I think you were supposed to do something within 12 to 18 months of the report being adopted. So we should have some progress report at this stage.

The CHAIR: Are we happy to put all that as part of B6? Okay.

Hon PETER KATSAMBANIS: I have a separate issue. On page 42 of the annual report you talk about developing new markets for sandalwood, and obviously that is important. Firstly, what specific initiatives are you undertaking to develop those new markets?

Mr Erasmus: The FPC has two significant contracts for sandalwood: one is to Mount Romance of, I think, 550 tonnes; and the other one is that we have a longstanding contract—I think it is a 14-year relationship—with Wescorp, which is our market agent. The FPC does not, in the first instance, go out and interact very directly with its customers; we have in that regard an agent. For interest's sake, those two agreements—that being the Mount Romance and the Wescorp agency arrangement—terminate in June 2016, so that is the subject of quite some considerable thought at the moment about how we renew that process or how we as a state sell sandalwood going forward. Some of those arrangements were concluded at the time of the Asian crisis, when prices were somewhat depressed, and we do believe the prices for some of the products could be improved. Unfortunately, those contracts were fairly firm and there is no short-term answer to some of the contractual prices, but the opportunity of revisiting that in 2016 provides significant opportunity for us. On a monthly basis we meet with the agent, we go through the customer base and the various products—sandalwood is not only sold as oil, but also in solid wood and various formulations of powder for incense sticks—and we review that with our agent, with a view to carving a specific market and making sure that distributors and end users do not compete with each other in markets. So this is an ongoing commercial activity.

Hon PETER KATSAMBANIS: Would you like to make any comment about the ongoing viability of sandalwood as an industry that the FPC would be specifically involved in?

Mr Erasmus: We do know that with the recent sandalwood parliamentary inquiry, there were a certain set of recommendations made, and we will adopt and work positively with them. One of them was the sustainable yield, which we will again work with the regulator and landowner to determine what that yield is. We are very mindful of the fact that there is a significant plantation sandalwood industry coming up. From maintaining the industry and the position of Western Australian sandalwood in the marketplace, we do take account of the increase in the plantation concurrent with the reduction in the natural so that there is no major disturbance in the marketplace. So on all of those factors we are working with the regulator at present to come up with those recommendations.

Hon PETER KATSAMBANIS: So you see an ongoing role in sandalwood production?

Mr Erasmus: Absolutely. It is a critical product that is used culturally across Asia and the world in the perfume industry, and Western Australian sandalwood has a very significant position in the marketplace. Obviously we would be responsible from an environmental perspective, and whatever the yield is, it would be a scientifically calculated one and we would not overharvest; that will be determined by the regulator. But certainly for the FPC we do see an important future going forward.

Hon ALANNA CLOHESY: When you talk about the “regulator”, who are you talking about?

Mr Erasmus: Sorry. I refer to DPaW, which gives us a licence or an order—if you will excuse my terminology—to harvest the sandalwood.

Hon ALANNA CLOHESY: Because you have a role in regulation around licensing?

Mr Erasmus: Yes, we do.

Hon ALANNA CLOHESY: And that is in fact part of the problem, is it not?

Mr Erasmus: We are only issued with a sandalwood order, which enables us to harvest a particular amount. When you talk about licences, we engage contractors and give them a contract to harvest it. So the sustainable yield is not set by us.

Mr Tredinnick: We do not actually provide licences. We have a licence with DPaW, and then we enter into contracts with companies to harvest the sandalwood on our behalf. We do not hand out licences.

Hon LYNN MacLAREN: But how is that actually enforced and monitored? You have a licence, but my understanding is that it is hard to enforce. Do you have a role in enforcing whether extra sandalwood is taken, apart from your licence? How do you ensure that the people you contract to are sustainably harvesting?

Mr Erasmus: We are audited very regularly by the Department of Parks and Wildlife, and we have to submit all of our production to them, and that is the subject of very regular audit. Of concern to us, obviously, is the harvesting of illegal sandalwood, which affects all of us. We do work with Parks and Wildlife, and when we do encounter illegal sandalwood in the marketplace, or activities, we do report it both to them and to the police. We understand that there is approximately 800 tonnes a year being illegally harvested; it is of great concern to us, and wherever possible we assist in the prosecution or the pursuit of these individuals.

The CHAIR: Just on the sandalwood issue, are all the people up to date with their payments to you—the people who have purchased sandalwood or the right to harvest sandalwood? Are they generally up to date with their —

Mr Tredinnick: Yes, they are all up to date. We have a domestic contract with Mount Romance, and those payments are up to date; and all our export sales are actually done on a letter of credit or an electronic transfer basis before the wood is actually exported.

Mr Lucas: So it is not part of their debtors’ figure, because they have paid.

Hon PETER KATSAMBANIS: One other issue is wood crops for Western Power. How confident are you that you are able to meet the demand that Western Power has over, say, the next three to five years?

Mr Tredinnick: We do not have surplus resource to be able to supply to Western Power. We do not have a contract with Western Power or with Koppers, who supply the poles to Western Power at the moment. Because of the impact on the total plantation resource as a result of drought and fire, our first obligation is to supply the state agreement contracts. It is only if we had surplus resource that we could enter into a new contract with Western Power. We do not have any contracts with Western Power, and we would have some significant issues associated with our state agreements if we did enter a contract directly with them. However, the way we facilitate that is that we provide the authority, if you like, for Wespine to sell some of the logs we supply them on to Western Power, but it comes off their state agreement volume so that we are not in breach of the state agreement. As part of a tripartite arrangement between ourselves, Koppers wood products and Wespine, we are trying to facilitate the transfer of at least 10 000 cubic metres of poles to Koppers.

Hon PETER KATSAMBANIS: What does that mean in the number of poles? What is 10 000 cubic metres?

Mr Tredinnick: Roughly about 10 000 poles.

Hon PETER KATSAMBANIS: Roughly 10 000 poles? Is that 10 000 per annum?

Mr Tredinnick: That is 10 000 per annum. I think their demand is more like 30 000 per annum, though, and we simply do not have that available; we do not have a long-term contract, and resources are committed under a state agreement. So, it is difficult. For us, the return we would get from poles would be significantly better than what we get from equivalent sawlog, so we would prefer to be doing it, but we just do not have the volume available.

[1.00 pm]

Hon PETER KATSAMBANIS: Is there any capacity in the longer term to increase your resource supply?

Mr Tredinnick: No. Our resource forecasts show that with the Wespine agreement, we can just reach the contract volume of the Wespine agreement. There is no contingency in it for further fires or drought, et cetera. So from a contractual responsibility, it would probably be irresponsible for us to enter into any new contract with anyone else. But we do try to work with Wespine and Koppers to ensure that we get the 10 000 poles per annum.

Hon PETER KATSAMBANIS: Where are they getting the rest of their poles from?

Mr Tredinnick: They are getting them from South Australia, I believe. It is not a good situation.

Hon PETER KATSAMBANIS: No; it is not a good situation.

Hon LYNN MacLAREN: I do have some other questions, and, if you do not mind, I will submit them following the hearing. But I wanted to talk a little about an issue in relation to the compliance report. The last compliance report I have is dated 31 December 2012. Can you tell me when the next compliance report is due?

Mr Lucas: That is not part of the annual report, is it? It is a separate publication.

Hon LYNN MacLAREN: No, but it is referenced in your report, so I went to look at what some of the figures were to compare them with what is in your annual report. I did notice that page 4 of your compliance report refers to incidents of logging in mapped old-growth areas, and I wanted to know if there were any incidents in 2013, because this compliance report identifies them in 2012.

Mr Tredinnick: Not to my recollection, but we would have to get back and confirm that. There are certainly no significant areas—nothing that we have classified as a major or a moderate environmental incident. But we will take that on notice and get back to you and confirm that. It is

basically a question of where the report is at up to at 31 December 2013. We had been waiting for some information to come back from DPaW. We received that information just last week, and we will get that report out over the next few days.

Hon LYNN MacLAREN: Excellent, I look forward to that. There is also a question regarding the incidents in relation to fauna habitat zones, which is referred to on page 5 of the compliance report, so if you could take that one on notice as well. My question of course would be whether there were any incidents in relation to those fauna habitat zones.

Mr Tredinnick: I think we can best respond to that by providing you with the report for the last calendar year.

The CHAIR: What are your current terms of trade for the sale of product? Is it 30 days for everybody, or does it vary depending on the product?

Mr Lucas: Native forest has 30 days from the date of delivery.

The CHAIR: Thank you. I will finish it there.

The committee will forward any additional questions it has to you in the next couple of days, together with a transcript of evidence, which includes the questions you have taken on notice. 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 before the due date. The advice is to include specific reasons as to why the due date cannot be met. If members have any unanswered questions, I ask them to email them to the committee as soon as possible after the hearing. On behalf of the committee, thank you for your attendance today.

Hearing concluded at 1.04 pm
