

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

2021–22 BUDGET ESTIMATES



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 19 OCTOBER 2021**

**SESSION FOUR
FOREST PRODUCTS COMMISSION**

**Members
Hon Peter Collier (Chair)
Hon Samantha Rowe (Deputy Chair)
Hon Jackie Jarvis
Hon Nick Goiran
Hon Dr Brad Pettitt**

Hearing commenced at 7.01 pm

Hon ALANNAH MacTIERNAN

Minister representing the Minister for Forestry, examined:

Mr STUART WEST

General Manager, examined:

Mr ANDREW LYON

Director, Business Services, examined:

Mr TONY DE NOBREGA

Director, Finance, examined:

Mr COLE THURLEY

Chief of Staff, Minister for Regional Development, examined:

Ms EMMA COLLYER

Principal Policy Adviser, Minister for Forestry, examined:

The CHAIR: Welcome to today's estimates hearings and, in particular, I thank the witnesses for taking the time. The committee acknowledges and honours the traditional owners of the ancestral lands upon which we meet today, the Whadjuk Noongar people, and pays its respects to their elders, both past and present. Can the witnesses confirm whether they have read, understood and signed a document titled "Information for Witnesses"?

The WITNESSES: Yes.

The CHAIR: Your testimony before the committee must be complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and broadcast live on the Parliament's website. The committee will place the uncorrected transcript of your evidence on the internet a few days after the hearing. When the transcript is finalised, the uncorrected version will be replaced by the finalised version. This is a public hearing, but the committee can elect to hear evidence in private. If for some reason you wish to make a confidential statement, you should request that the evidence be taken in closed session before answering the question.

Members, you have all been here at least once over the last two days, so you understand the process. I will allow members to follow on through various questions and everyone will be given an allocated period of time. It is about an hour and 15 minutes, so we should have a fair quota of time for each member. I ask that you provide the relevant page and paragraph numbers when appropriate.

Minister, would you like to make an opening statement?

Hon ALANNAH MacTIERNAN: Yes, thank you very much. Obviously, the Forest Products Commission is deeply involved in the McGowan government decision to end the logging of our native forests as a primary economic activity and they will be heavily involved in the development of working on a path forward. I think this decision has been welcomed by probably the majority in the community. We understand that this will place a burden on or be a potential radical readjustment for a number of the workers that are in that workforce. We predict that probably over the coming years there

might be around 400 people who will need to be redeployed. But we are very confident, when we look at the opportunities that are in that area and we look at the work that we have been able to do in Collie, we will deliver a just transition for those workers. We will be able to do that. We are dealing with very real problems of climate change and we have made this decision in a timely way that will enable us to put in place that transition plan well in advance of the completion of the current forest management plan.

Hon JACKIE JARVIS: I note, obviously, because we are dealing with a government trading entity—we are looking at the statement on page 298 of budget paper No 2, volume 1—it is an income statement and we are looking at revenue rather than expenditure, so it is a bit different from what we have been doing during the rest of the day. On page 298 is the revenue from operations and the sale of goods and services. I could not see whether those amounts are divided up into native timbers versus plantation revenue. Is there a breakdown of those revenue sources by whether it is native or plantation?

Hon ALANNAH MacTIERNAN: Yes, we do have a breakdown. You are looking for 2021–22?

Hon JACKIE JARVIS: Yes, that is good.

Hon ALANNAH MacTIERNAN: Native timber is \$45 257 000, plantation timber is \$69 661 000 and sandalwood is \$19 908 000.

Hon SAMANTHA ROWE: I have a question around climate change. In budget paper No 2, volume 1, on page 294, I note the statement —

Climate change impacts, such as reduced rainfall, increased risk of wildfires, and biosecurity threats are expected to continue to affect native forests and plantations in Western Australia and need to be managed.

Is the minister able to explain what effect climate change is having on our forest and what that then means for the future of the industry?

Hon ALANNAH MacTIERNAN: The impact has been very marked. Obviously, the reduced rainfall has been a primary impact, and that has resulted in decreased timber yields. Not only is that drying climate reducing yields, but also we are finding that those trees, then, are stressed and they are much more vulnerable to pests and pathogens. It has been a considerable challenge for the commission to continue to log at the rate that had been predicted with the forest management plan last time round and commensurate with the agreements that we had entered into.

There are some figures here that tell us that these declining yields have been seeing the Forest Products Commission operating at a loss in respect of its native timbers to the extent of \$2.8 million since 2014.

[7.10 pm]

Hon NICK GOIRAN: I have some questions in respect of this area, but I yield my questions at this time to the shadow minister.

Hon STEVE MARTIN: I might ask the minister a couple of question on her opening comments, if that is appropriate, before I launch into my prepared comments. Minister, the 400 people you mentioned earlier who you said might have to be redeployed, can I have access to any of the commission modelling as to where that number of 400 has come from?

Hon ALANNAH MacTIERNAN: It was a general comment. Basically, I think it is based on the fact that there are around 500 people directly engaged in logging. It is anticipated that going forward after the beginning of the transition plan there would still be around 100 persons still engaged because, as I think has been pointed out in many statements, there will still be logging, there will be thinning,

there will be forest management work that does need to be done. That is the basic context of that figure.

Hon STEVE MARTIN: Thank you minister. I assume that the 400 people directly involved with the logging is not the number that the commission or the government are working on as far as any help through the Just Transition package. That would just be the 400 surely involved in the immediate task, and then all the other flow-on jobs?

Hon ALANNAH MacTIERNAN: That and we are preparing the Just Transition plan. Work will be undertaken to understand of course all of what the full impact will be. I think it is important to understand that it is an area where there are jobs emerging. Obviously, the expansion of the Greenbushes mine is just one area that comes to point, but the detail of the whole need and the identification of the need, that will be the work that will be done by the Just Transition group.

Hon STEVE MARTIN: In reference to my point about any modelling from the department or the commission, is that a body of work that I would be able to have tabled or have access to?

Hon ALANNAH MacTIERNAN: I think that was a general remark that I made at the beginning. No, I am not sure that any of that has been included in the budget papers for the FPC. That was a general introductory remark. My understanding is there has been discussion of those sorts of figures in the public realm.

Hon STEVE MARTIN: I will come back to the package, minister. I will just ask a question about a reply to Hon Samantha Rowe on the climate change question. You mentioned a number of impacts that, according to you, are affecting the forests. I was just intrigued as to when that impact became apparent. For example, was it apparent on 11 March 2020, when the then Minister for Forestry Dave Kelly suggested that —

Parkside has come to Western Australia and made significant investments because it had confidence that this government supports the ongoing native forest industry ... to say that we are undermining confidence is simply not true.

Was Minister Kelly unaware of the impact that climate change was having on the forests then?

Hon ALANNAH MacTIERNAN: Obviously, as we were moving towards a new forest management plan we needed to take into account all of the issues of sustainability. A decision needed to be made about, as I said in the lead-up to the preparation of a new forest management plan, whether it was in the best interest of the community to continue with another plan or whether the ever increasing amount of concern that is coming out from the IPCC about the risks and obviously about the need to conserve trees as well, because this works on both sides, is actually, in part, a climate mitigation response as well. I do not know, Mr West, whether perhaps you could talk about some of the more recent workings on this modelling?

Mr WEST: Mr Lyon is probably best placed.

Mr LYON: We have been modelling and found that the historical yields of sawlog that we have been getting per hectare off our coupes has been declining, and our modelling was showing that that has gone from 20 tonnes per hectare of sawlogs down to 10 tonnes per hectare. That information has been passed along.

Hon STEVE MARTIN: Was it passed along to the Minister for Forestry?

Mr LYON: We have been passing that information along as it is becoming available, yes.

Hon ALANNAH MacTIERNAN: This is an emerging area, because you have that modelling and then you have recent IPCC reports that are coming out, urging ever more urgent action and showing predictions that might even be more alarming. At some point in time we have to make a decision

about whether we are going to go into another 10-year agreement at the expiration of the one in 2023. I have very clear recollections before the election of Minister Kelly and others talking about the fact that we are going to obviously be considering all of these issues in the revision of the forest management plan. That has not been new, and indeed I think I seem to remember Hon James Hayward said he went to a dinner that Minister Kelly was at and he was alarmed that Minister Kelly was at some time pointing out these things and he was alarmed.

Hon STEVE MARTIN: Can I just be clear on the comment from the adviser, the Minister for Forestry was aware in March 2020 when he suggested that this government supports the ongoing native forestry industry. He was aware then that the yields had cut from 20 tonnes a hectare to 10 tonnes a hectare, and despite that knowledge —

Mr LYON: I am sorry; I think you are misinterpreting what I said there.

Hon STEVE MARTIN: I am still getting there. Despite that knowledge, he was still confident then and suggested that the government supports the ongoing native forestry industry?

Mr LYON: Through the minister, perhaps I was not clear, and, apologies, I will make myself clear. I was saying that since we have been working on the next FMP and we have been looking at the issue with yields, through the FPC, we have actually sort of been able to model that that was coming down. You asked for a specific date, I am sorry I cannot give you the specific date, but as we have been modelling that, we have been putting it into the FMP process and making sure that everybody is aware of that.

Hon STEVE MARTIN: I apologise for labouring the point, minister, but I assume that the Forest Products Commission over the life of the FMP have been modelling yield out of those coupes. There was not a sudden drop from 20 tonnes to 10 tonnes. I mean, the rainfall has been declining in the south west, but it did not fall off a cliff one morning and you went from 20 to 10. I assume the minister would have been made aware of the modelling over the life of the current FMP. Can you just clarify for me, approximately in 2020, would the minister have been aware that yields had fallen, and despite that, he expressed his confidence in the ongoing future of the industry?

[7.20 pm]

Hon ALANNAH MacTIERNAN: Can I say it was a matter of public knowledge that yields were falling. It was a matter of knowledge to the industry itself, because they were unable to meet the obligations that were there. Certainly, anyone who was in the Parliament last time would be very familiar with the frequent questioning on this issue. But, at some point, we got to consider all of the evidence that was before the government and a decision was made that it is best now to draw a line under this and have time for the industry to make a transition, rather than let this thing drag on with those declining numbers. That was a decision that was made, and it was made only this year.

Hon STEVE MARTIN: I have a couple more questions on the transition package itself. Minister, could you enlighten us on the modelling and the work done to come up with the figure of \$50 million, please?

Hon ALANNAH MacTIERNAN: No, because, as I said, we made the decision, and once that decision was made we said we would then develop the transition plan. We have put \$50 million on the table. That is a figure to some extent based on knowledge of what we were able to deliver in Collie within our first term. There is no reason to say that if in the future there are other projects that are worthwhile that would be employment-enhancing that we would not add to it, as we have done with the Collie scheme. At the last election we added additional funds because there were still new projects to develop. But we made the decision, knowing how this system works and the way in which companies need to develop their feasibility and then their capital requirements, that this was

certainly an adequate provision in the first instance. But there is nothing to say that in a future budget or in a subsequent term of government that we would not add to it. What was important was that as soon as we really collectively as a government came to the decision that it was the best thing all round for the climate and, in fact, the ability of the community to really adjust that we make that decision, we made it clear that we did that then so we would have time to develop that transition plan before the end of the current forest management agreements.

Hon JACKIE JARVIS: I have a question around yields. I thought it might be helpful, minister, if we reverted to the agreed form of questioning where we identified a page number and an item. Following on from Hon Steve Martin's question about yields, and to help round things out and bring it back to that agreed format, I refer to page 294 of budget paper No 2, volume 1. Paragraph 3 under "Native Forests" —

The predicted volume of sawlog under the Forest Management Plan ... has not matched actual yield.

With regard to that sentence, I thought it might be helpful if I asked a question about what the actual yield was versus the predicted volume.

Hon ALANNAH MacTIERNAN: Thank you, member, and I recognise that you have some particular knowledge of this because I understand you had previously been on the Forest Products Commission.

Hon JACKIE JARVIS: And I certainly declared my interest to my committee members.

Hon ALANNAH MacTIERNAN: That is just knowledge and experience you build. Did Mr Lyon want to speak to that?

Mr LYON: The issue is not just when we say a declining yield, I should probably say that it can be masked, because what we have not seen is a decline in yield of all products coming off, but there has been a shift over time in the ratio of sawlog to other products. If I was to go back to, say, 2016, the ratio of sawlog to other material coming off sites was 1.7, which meant that we got 1.7 tonnes of other biomass while we were getting one tonne of sawlog. In 2020, that had changed to 3.15, which meant that we were getting over three tonnes of other product for every one tonne of sawlog we were getting off. While it can be easy to say it was obvious that there was a decline in yield, it is not always that easy to see because the actual total quantity coming off the sites was the same, but the actual revenue that you were getting from it was changing because there was less sawlog and more other volume. That also meant that there needed to be a change in how that was processed, because there was less sawlog and more biomass, so you needed to look to expand biomass markets for the same amount of volume that was coming off.

Hon JACKIE JARVIS: May I ask a follow-on to that, chair?

The CHAIR: I will come back to Hon Jackie Jarvis.

Hon JAMES HAYWARD: Just before we go over to those things, I have a couple of quick questions about what was said—so, 50 per cent yield. Over what time period have we seen that drop from? What was the last date that you got the higher yield and up to, say, now?

Hon ALANNAH MacTIERNAN: Are you talking about the sawlog ratio here? Are you taking up that point that was made by Mr Lyon?

Hon JAMES HAYWARD: Yes, that is correct.

Hon ALANNAH MacTIERNAN: You have that figure from 2016. In 2016, it was 1.7.

Mr LYON: Yes, and by 2020 we saw that it was 3.15.

Hon JAMES HAYWARD: Have there been any new technologies being used and any more use of that biomass product? For instance, what might have been left in the forest previously and not billed, is that part of the reason why there has been a change? So, they cut the tree and in the old days they used to bulldoze it all up and burn it. That is what they used to do with the bits left over. Now, I understand they use a lot more of the tree. Is that potentially part of the reason why there has been an increase in biomass coming off those logs?

Hon ALANNAH MacTIERNAN: I think it is the reduction in the size of the logs, is it not?

Mr LYON: There are two things about that. There are more markets for biomass, so they actually use more. There are markets to put it into where there was not in the past. It used to be heaped as you say—it was not. Then there is this other change, where the coupes themselves are producing less sawlogs and more biomass material. We have seen that because the volumes coming off, as I say, you are not getting higher volumes coming off; you are getting similar volumes, but the ratios between sawlog and other bole volume has changed over time.

Hon ALANNAH MacTIERNAN: As I understand it, that then changes the fundamental economics and that means that the taxpayer is actually having to subsidise these native forest operations. My information here is that that has been the case since 2014. Since 2014, the taxpayer has been in there subsidising the logging industry in our native forests.

[7.30 pm]

Hon JAMES HAYWARD: Just in relation to that, what are the costs that are attributed against native forests logging potentially? Is that the entire operations of FPC? How does that work? And also, minister, perhaps, where there is a loss, does that mean that there is a line item from Treasury that underwrites FPC?

Hon ALANNAH MacTIERNAN: I think the general manager will answer.

Mr WEST: No, is the short answer; there is no line item of subsidy or contributions. The Forest Products Commission is diverse. It has native forestry activities, pine plantation activities and sandalwood activities. The pine plantation business, putting aside the recent announcement of significant investment and expansion, traditionally is about one half of our business, and then of the other half of our business, two-thirds is native forestry, one-third is sandalwood. So if you picture our business as half pines and then two-thirds and one-third. So the rest of our business is able to cover any loss of profit or any reduced profit. Of course, we just report in the budget papers as the whole of the FPC. Where one part of the business becomes less profitable, it erodes profit from the other parts of the business, which would have been returned through dividend or through the normal agreed budget process back to the government, so that is how it gets accounted for. But, as a business, like many other government trading entities who have some degree of diversity, we just report as one ultimate business.

Hon JAMES HAYWARD: So you are saying that the part of the business that is not performing is native forestry and you are confident that with the removal of native forestry that the other branches, if you like, will be able to turn a profit?

Hon ALANNAH MacTIERNAN: There is no reason to believe that they will not continue to run on their current economics. But, indeed, we now will be providing, through the government's decision, over the next 10 years to spend some \$350 million on replanting. But in the long term, we will have replenished our pine plantations.

Hon JAMES HAYWARD: Again, just in terms of the costs that are associated with native timber, that presumably must be higher labour intensity. What is it about native forestry that makes it unsustainable financially for FPC?

Hon ALANNAH MacTIERNAN: Well, because it is the volume of wood that you can take out. I will get Mr Lyon to talk about this. I have got some figures here; for example, in 2017, the cost of going into the forest, finding the trees of the right size and taking them down—bearing in mind that there are only certain parts of regrowth forest and there is a very strict EPA regime about which areas you can go into, so it is heavily regulated in terms of the areas that you can go into and the cycle or frequency that you can go into those areas. If there is less sawlogs per area that you go into and start cutting, then you are going to have less revenue. This would have been very profitable if we were chopping down an old-growth forest and we have lots of trees per hectare, but as time has gone on and with the regrowth forests and the declining rainfall where forests were not re-growing at the same rate, that made it harder.

Hon JAMES HAYWARD: I refer to budget paper No 2, volume 1, page 293. The table at the bottom of the page shows the annual amounts for the softwood plantation expansion program over the forward estimates. Why are the amounts shown for 2021–22 and 2024–25 negative figures when the government has announced, as part of the budget, an allocation of \$350 million over 10 years for the expansion?

Mr DE NOBREGA: That was an adjustment to try and get the SIMS figures to balance back to the actual figures that happened at the end of the financial year. There is an adjustment in the actual SIMS figures as such.

Hon JAMES HAYWARD: Sorry; I just struggled to hear that answer. Perhaps, if possible, you might —

Mr DE NOBREGA: It was an adjustment done in the SIMS figures to get them into line with the actuals that happened at the end of the financial year. That was it.

The CHAIR: So it was purely an adjustment?

Mr DE NOBREGA: That is correct.

Hon JAMES HAYWARD: And 2024–25? That has not happened yet, so?

Mr DE NOBREGA: No, it has not.

Hon ALANNAH MacTIERNAN: I am sorry. If you can just bear with us for a second and we will get some clarification on that. It was a 10-year program. If I could take the member to page 296, it seems to have some greater clarity there. If you have a look at page 296, you will see under new works that it is almost \$96 million, so that is for the next four years. This is an allocation for land—that is the land acquisition that will go on over the next four years. There is also another line item in the budget—I cannot quite explain; we do not appear to necessarily have something that makes sense to the layperson—but on page 296, you can see how the funding will be spread out in terms of land acquisition. Obviously, this first year, it will be a bit slower just as we are gearing up, and, as I understand, there is at some point, in some part of the budget, a \$24 million allocation for the actual establishment.

The CHAIR: Sorry, just to confirm, then, from my understanding, there has not been a reduction in funding? It is purely an adjustment?

Hon ALANNAH MacTIERNAN: I think the member was wanting to see where the money that had been announced appeared in the budget, and it appears in the budget as new works.

Hon JAMES HAYWARD: Just for clarification, I was actually just asking about why they were negative figures, because negative figures would seem to indicate that there was no money coming from government. In fact, if I move on to the second part of the question, it may help. It may be that it needs to be taken on notice, Mr Chair.

Hon ALANNAH MacTIERNAN: Look, I will take it on notice, because I am not clear, unless Mr West has an answer.

Hon JAMES HAYWARD: Perhaps, chair, I could read the next two parts, which are also connected to this, and then perhaps they could all be taken on notice if that assists.

The CHAIR: That would be good because I am confused, actually, and it would be really good to get some clarity.

Hon JAMES HAYWARD: The amount for 2021–22 is a negative figure, yet the *Economic and fiscal outlook* on page 272 states that an allocation of \$11 million has been made for 2021–22.

What is the reason for that discrepancy? Thirdly, the total expenditure as shown in the table over the forward estimates differs from the statement at page 296 under the heading “Asset Investment Program”, paragraph 2. That \$96 million has been committed over the forward estimates and why is that? Perhaps we could take that on notice.

[7.40 pm]

Hon ALANNAH MacTIERNAN: Sorry, what is the contradiction? We have \$96 million allocated over the forward estimates and you believe that is contrary to which figure?

Hon JAMES HAYWARD: The amount at 2021–22 is a negative figure, yet the *Economic and fiscal outlook* at page 272 states an allocation of \$11 million has been made for 2021–22.

Hon ALANNAH MacTIERNAN: So we are still looking for an explanation.

The CHAIR: We might need to be quick or else take it on notice because we have got a —

Hon ALANNAH MacTIERNAN: I think we just need to find out.

Mr LYON: I will answer the part where there is a discrepancy between the \$11.3 million and the asset investment program of \$8 million—that is very similar to the asset investment program—that is land only, and the \$11.3 million is land and establishment costs; so that is the cost of the seedlings, land preparation and all the costs that are not an asset. The asset investment table only shows the land purchase, which is the \$8 million. This figure here is land and establishment costs. Does that answer that part?

Hon JAMES HAYWARD: I think so.

Mr LYON: With your second part, “Why is it a negative figure on the way down?”, that is simply the trade.

Mr DE NOBREGA: Correct.

Mr LYON: I will pass to the CFO.

Mr DE NOBREGA: The current tax expenses of 1 497, plus the local government rates of 45, adds up to negative 1 452. It is the current tax expenses that were negative, plus the local government rates that were adjusted. That is how it has ended up with the negative figures.

The CHAIR: Have we got the first part? Have we still got that on notice?

Hon ALANNAH MacTIERNAN: What we will take on notice is an explanation of that particular line item.

The CHAIR: Yes. I am very comfortable with that.

[*Supplementary Information No D1.*]

Hon NICK GOIRAN: I have got one question at this point, Mr Chairman, for the minister. When was the last *Statement of corporate intent* provided?

Hon ALANNAH MacTIERNAN: It was last year, and the *Statement of corporate intent* for the current financial year is just being finalised.

Hon NICK GOIRAN: That will be tabled in Parliament?

Hon ALANNAH MacTIERNAN: Yes.

Hon NICK GOIRAN: Would we expect that in the remainder of this calendar year?

Mr LYON: Yes.

The CHAIR: Anything further?

Hon NICK GOIRAN: I would prefer to yield my questions to the shadow minister at this time.

The CHAIR: Hon Jackie Jarvis, did you still have a question?

Hon JACKIE JARVIS: I did. It was basically to get some more clarity, minister, with regard to the questions of the sawlogs and the biomass. But I think we have already answered it, so I might leave it and pass on to Hon Steve Martin.

Hon STEVE MARTIN: I have a couple of questions on a question I submitted prior to the hearing. I refer to page 297 of budget paper No 2, volume 1. I asked —

Were the farmers involved in the referenced share farm agreements consulted when the decision —

Hon ALANNAH MacTIERNAN: Can you speak up, sorry.

Hon STEVE MARTIN: It was page 297, budget paper No 2, volume 1, and it was a question about —

Were the farmers involved in the referenced share farm agreements consulted when the decision was made to defer the clear-felling?

The response was that the FPC—

... endeavours to inform sharefarm landowners 12 months prior to the commencement of any harvest operation.

“Endeavours” is fine, but did they actually consult those landowners about that clear-felling?

Hon ALANNAH MacTIERNAN: You are wanting to know to what extent did they do that; is that right?

Hon STEVE MARTIN: It is about the language used. “Endeavours to inform” means they might not have informed them. I am trying to clarify—which was the point of my question—did they consult and did they inform them?

Hon ALANNAH MacTIERNAN: As a matter of fact, the question is, “Was the Forest Products Commission able to consult with people before they started their harvest operations?”

Mr LYON: Yes. The wording is there because while we endeavour to do it 12 months before, it may be 11 months; it may be 10 months. It is certainly before the harvesting, but if we had said it is 12 months, I believe the question might have been, “Do we always hit 12 months?” No, we do not. While we endeavour to do 12 months, it can sometimes be 11 months.

Hon ALANNAH MacTIERNAN: Maybe the intent of the member’s question as to “endeavour” is to establish that there were no instances where you went in and clear-felled without prior notice.

Mr LYON: No.

Hon STEVE MARTIN: Correct, minister; well spotted. Thank you.

Further in that response from the FPC, minister, it mentions the purchasing of land for the \$350 million softwood investment. It meant the response was —

Land will be sourced through a combination of:

- Acquisition of freehold land; and
- Sharefarm arrangements under the *Forest Products Act 2000*.

Do we have a view of what the split would be? Is there any modelling? Obviously that would —

Hon ALANNAH MacTIERNAN: No, because it really is what is available. It is really the degree that farmers who are currently in sharefarming arrangements have had their product harvested, which would be ideal for us to go through and replant on those areas. As we know, farming land is very valuable at the moment and sometimes people were keen to go into a sharefarming arrangement some years ago when the reserve price scheme had collapsed and there was no money in sheep.

Hon STEVE MARTIN: Times have changed, minister.

Hon ALANNAH MacTIERNAN: And times have changed. No; basically, it is presumed, from my understanding from my earlier discussions, that probably the majority will be land acquisitions but where there are willing farmers who want to engage in the sharefarming, that will definitely be considered. As it has been explained to me, as I understand it, each of these decisions has to be a commercial one. There will need to be a proper, modest economic return expected from the product so that we are not in a situation of subsidisation; that this is a proper industry. The government will not be looking for the same rate of return on capital that the private sector would look to, which would be the reason why government will be doing this rather than the private sector. If you were looking for an eight or nine per cent return on capital, you probably would not be able to achieve the plantation timbers that we need for the building industry.

Hon STEVE MARTIN: I appreciate the detailed answer, minister, but surely the commission must have some modelling or a plan because obviously the cost of purchasing the land as opposed to the cost of sharefarming the land will have a huge impact on the amount of hectares you can plant next year and the years after —

Hon ALANNAH MacTIERNAN: I understand you have —

Hon STEVE MARTIN: Some work must have been done.

Hon ALANNAH MacTIERNAN: Would you like to respond to that, Mr West?

Mr WEST: “Sharefarm” is just the generic term for an arrangement with a landowner. The arrangements can include an annual lease payment and they can include a share of the returns at the harvest, and they are variable. Some farmers or landowners, depending on their circumstance, can have minimal or no annual payments and the majority share of the returns; others can seek a higher annual lease or rent payment and minimal or no return of the final crop trees, and anywhere in between.

Until you negotiate with the landholder—they might want hundreds of dollars per hectare per year or they might want no dollars per hectare per year. If they are seeking minimal or no dollars per hectare, they are obviously seeking perhaps 90 per cent of the returns of the final harvest. That is very cheap to manage, because there is no annual payment and you are just forgoing your share of the profits. We have a variety of discussions and negotiations. We do not know what a landowners’ preference will be until we talk to them.

[7.50 pm]

Hon STEVE MARTIN: I will just pursue this a little bit further, if you do not mind. I appreciate that. I understand how that arrangement might work, but if you cannot find, for example, sharefarming arrangements and you are forced to buy 10 000 hectares at \$17 000 or \$18 000 a hectare—and that

is about what it is worth—you are going to be coming to the government with a different proposal than if we are sharefarming 80 per cent of that land.

Mr WEST: The \$350 million modelling will accommodate about 33 000 hectares of land purchased entirely with no sharefarming and the resultant cost of establishing—paying for the seedlings, site preparation and the planting of the seedlings. So the \$350 million is expected to produce, without any cooperation or co-funding with any other party, 33 000 hectares straightforward.

Hon STEVE MARTIN: On my rough maths that is a bit more than \$10 000 a hectare.

Mr WEST: Yes, for entire costs to get it established.

Hon STEVE MARTIN: For entire costs?

Mr WEST: Yes, in general terms.

Hon STEVE MARTIN: For a 650-millimetre rainfall property in the best bit of agricultural land in Western Australia?

Mr WEST: Probably not in the best agricultural land. Historically, forestry is never in the best agricultural land, because it cannot afford to pay the price compared with alternatives. It is not the prime land. It is just too price-prohibitive for the forestry sector nationally in general.

Hon ALANNAH MacTIERNAN: But you are confident that you will find more marginal land? Can you give us some idea of what the parameters are of the land?

Mr LYON: Obviously there is rainfall, but it is distance to market, which is a very critical one. It does not matter what price we get the land at; if you are too far away from the market, the economics is just not there. We are looking at a range of factors. There are also other benefits. We have not talked anything about the ability to sequester carbon on new plantings. We certainly expect to be able to do that on a lot of the plantings. We also look for additional benefits such as salinity reduction and diversification of an area.

Hon ALANNAH MacTIERNAN: So what you find is that some farmers might want to do this to reduce salinity in the nearby area. There would obviously be carbon credits that you could utilise in the carbon market. What is current price for that?

Mr LYON: At the moment the carbon price is \$17 an ACCU through the ERF and about \$20 on the open market.

Hon ALANNAH MacTIERNAN: You can start getting that. That is a return on your capital that you can start getting from the time that you plant.

Mr LYON: From the time you plant it starts to sequester carbon.

Hon ALANNAH MacTIERNAN: That does change the availability of carbon credits, obviously. It is something that really assists in the financials.

Mr LYON: Minister, we also hope to use the fact that there are landowners and companies who want carbon who might make land available if they were able to have the carbon, and we would certainly look at that as well.

Hon STEVE MARTIN: I am intrigued by this sequestering carbon argument. One of the Premier's proudest moments during his speech when he announced the end to hardwood logging was that we would be locking up the carbon.

Hon ALANNAH MacTIERNAN: Yes, but this carbon —

Hon STEVE MARTIN: Yes, I am aware, but he said because we are now stopping logging, the carbon will be locked away. So you are telling me we are sequestering carbon, paying credits for it and in

30 or 40 years we are cutting it down, and that is somehow different to the carbon equation that was involved with the native sector.

Hon ALANNAH MacTIERNAN: If you think about it, member, we have two lots of carbon. We have the carbon that is in the trees that were not cutting down and we have the carbon in the trees that we are planting. So we are not just going in and taking out those logs that are there; we are keeping all of that. We are keeping that timber there and those logs there and the other biodiversity benefits that you get from that as well, plus we are now planting new wood. You would be well aware that we do not use native timbers for structural purposes in today's market. It is pine that is largely used in our construction industry. We will be creating the pine, plus sequestering this additional carbon by planting rather than chopping down trees.

Hon STEVE MARTIN: I think you missed my point, but I will move on. Can I just ask quickly about the ownership of the land that you intend to purchase? It is my understanding that the Forest Products Commission is precluded from owning land, so who will be purchasing the land?

Hon ALANNAH MacTIERNAN: At the moment it is possible for other entities such as DBCA to acquire the land, but as part of the development of this program, it would be our intention to introduce into Parliament legislation that will give the FPC the ability to do this.

Hon STEVE MARTIN: At what stage is that legislation, minister?

Hon ALANNAH MacTIERNAN: It was introduced today by Minister Kelly—by motion today.

Hon STEVE MARTIN: Was it really? Thank you for the heads up. We will be keen to have a look at it when it emerges.

Hon ALANNAH MacTIERNAN: No doubt it will be introduced into this place, as we intend to —

The CHAIR: Just before I hand over to Hon James Hayward, against how many KPIs does the FPC report?

Mr LYON: I believe it is 17 or 18 KPIs. I will have to check.

The CHAIR: Have there been any changes over 2021–22 terms of the KPIs?

Mr LYON: No.

The CHAIR: Can you just clarify that for us?

Hon ALANNAH MacTIERNAN: You just want clarification that there have been no changes on the KPIs?

Mr LYON: There have been no changes, because the changes have to be approved by the Under Treasurer, and we have not had any changes made.

The CHAIR: Have a look at budget paper No 2, volume 1 and the outcomes and key performance indicators table. Can you just explain to me why the operating profit KPI has been revised down from \$507 000 in the last budget to \$164 000 in this budget?

Hon ALANNAH MacTIERNAN: So your question is?

The CHAIR: Why has the operating profit KPI been revised down from \$507 000 in the last budget to \$164 000 in this budget?

Hon ALANNAH MacTIERNAN: Your question is why was there a drop in the operating profit?

The CHAIR: The operating profit KPI has been revised down. It is on page 295.

[8.00 pm]

Hon ALANNAH MacTIERNAN: Perhaps, Mr West, you can explain that.

Mr WEST: That is the operating profits shifting from \$1 933 million, compared to \$507 000. Is that it?

The CHAIR: But down to \$164 000 in this budget.

Mr WEST: Fundamentally, either our market sales for the period of COVID or the deferral of our expense activities, which has pushed them back, and the main one being fertilising costs which have been pushed back a year, which then increase our costs and erode our profit.

Hon ALANNAH MacTIERNAN: My understanding is that you had to delay some of those activities because of COVID in 2020–21, and so that is what has caused this realignment.

Mr WEST: Yes, so the significant expense is pushed back.

The CHAIR: Okay. I am not comparing the estimated actual. I am comparing the actual budget of \$507 000 to \$164 000. Is that what you are doing as well?

Hon ALANNAH MacTIERNAN: There is the budget for 2020–21 and then there is the estimated actual, and the estimated actuals are all considerably less, from what I can see. I understand that is because work was delayed in the COVID year. There was less work done in that 2020–21 year, so the estimated actuals are less than the budget.

The CHAIR: That is good. Thank you.

Hon ALANNAH MacTIERNAN: As you can see, the budget for 2021–22 is much higher because you have got those matters that were not able to be expended in 2020–21 being moved forward into the 2021–22 budget.

Hon JAMES HAYWARD: I think you said 33 000 hectares of land could be purchased with the \$350 million. How much millable timber in tonnes will be created by that landmass? Do we know?

Mr LYON: It will depend on where it is because the mean annual increment—MAI—will be different across the landscape, but we would assume that you would get something like 16 MAI, across a range of 14 to 16 MAI across —

Hon ALANNAH MacTIERNAN: What does that mean?

Mr LYON: That is mean annual increment—16 tonnes per hectare annually grown.

Hon JAMES HAYWARD: So, presumably, because the budget is over the 10-year period, you can only do 10 per cent of it each year.

Mr LYON: Sorry; I will clarify. While the money is budgeted and it is put across a 10-year period, it is a Treasurer's special purpose account and we can draw down on that. If there was more land available next year that we could draw on, then we can bring it forward and purchase that. Then if there happens to be a year where the price of land has gone too high and we do not want to purchase land, then we have that ability. The 10-year—it is not designed to be just evenly split. It is designed to allow us some flexibility that we could bring forward some purchases.

Hon ALANNAH MacTIERNAN: For notional purchases, you spread it out, but if there is good land available, you have the opportunity to take that up.

Hon JAMES HAYWARD: It sounds like quite a flexible arrangement that could work well. The question I have is around sustainability. The minister already touched on this; at the end of this process, the pine plantation industry should be able to stand up by itself without ongoing government support. I am interested as well in terms of the —

Hon ALANNAH MacTIERNAN: Can I say that the pine portion of the FPC's business is already income-positive, so it is financial. We do not demand the same rate of return on capital that the private sector would, but it is not receiving a taxpayer subsidy.

Hon JAMES HAYWARD: Does the government currently own pine plantations?

Hon ALANNAH MacTIERNAN: Yes, it is part of the plantation timber, but there are also privately owned plantations.

Mr LYON: Yes. There are share farms as well, which is a joint arrangement, and then the FPC has some private land that we own with pine plantations, and then there is also state land, crown land, that has plantations on it.

Hon JAMES HAYWARD: With this new phase that is being paid for now by this new fund, when will those first logs go through the mill?

Mr LYON: They will have their first thinning at roughly age 12, and that will not produce structural-grade timber at that time, but it will produce a biomass product; and then it will be thinned roughly about age 18 to maybe age 20; and then it will be clear-felled at about age 25.

Hon ALANNAH MacTIERNAN: But I think at that second thinning, some of those will be sawlogs.

Mr LYON: Absolutely. You will get some structural timber at that second thinning and some biomass, and then the majority of timber will be clear felled at age 25.

Hon JAMES HAYWARD: If we fast-forward 25 years to the first crop, if you like, of these newly planted pine trees, from then on FPC expects that industry to be sustainable moving forward. The government will already own the land so presumably you can replant and it should be an ongoing benefit to the state.

Mr LYON: That is the intent. Obviously, the issue that we have with the declining estate at the moment is through the share farms that we have had arrangements with, we are coming out of those and there is no automatic right of replant. Also, even if we go back into another share farm agreement, that then costs us a whole other rotation of money to pay for the annuity, whereas if we own the land, we have paid for it in the first rotation and then we can replant again.

Hon JAMES HAYWARD: Certainly, there is a lot more security if you own the land. In terms of the issues around the Gngangara mound, which I am sure you would all be well aware of, one of the challenges there, of course, is that the timber grew up and then became the habitat of cockatoos, which made it problematic to harvest that wood. Also, I understand that in that circumstance they could not replant because of the drawdown on the water. I guess they are some variables that are not in this mix. Do we imagine that fast-forward 25 years, we potentially might have issues with animals creating habitat in these places and also the potential drawdown on water resource?

Hon ALANNAH MacTIERNAN: I think the Carnaby's cockatoo and other cockatoos and parrots will very much appreciate the new plantations.

Hon JAMES HAYWARD: So, you do not envisage those historic problems could arise again?

Hon ALANNAH MacTIERNAN: I mean, obviously, there will be birds that are attracted to that area. The fact that we are replanting is going to ensure that those populations will exist, and our aim will be to continue to have new plantations coming on that can provide the habitat. As one lot gets chopped down, another lot gets planted.

Hon JAMES HAYWARD: I understand there will be a sustainable cycle, if you like, over a period of years where they are not all getting cut down at once, so presumably there may be some flexibility. The water issue is more challenging, though, because that is not just about the cockatoos; it is about

what is available. You have already indicated there is a drying climate, so is there any consideration around how that might be mitigated?

Hon ALANNAH MacTIERNAN: In terms of the Gngangara mound?

Hon JAMES HAYWARD: No, in terms of how much water the pine plantations will absorb.

Hon ALANNAH MacTIERNAN: Yes. Our view is that the pine trees use water in the upper soil layers and the FPC will be targeting planting in those areas where the trees can lower shallow water tables and reduce the salinity of water, lowering the landscape.

This plan has the capacity to improve the quality of water that can be used for aquaculture and horticulture. Hon Darren West would testify to this and often talks about this. There is a lot of water in many parts of our landscape. Part of the problem is when we deforest it, those trees that used to keep the water down below have gone and whilst in some places it has given us water, in other places it has created a problem, because we have brought saline water from deep down up into the upper reaches of the soil.

I think what the FPC has been saying and what accords with the work we are trying to do with our land restoration fund is that if you plant these in a strategic way, you can help reduce and take the watertable down and thereby reduce the salinity on the surrounding land. In certain areas, that will be to the real benefit of the remaining adjoining horticultural or broadacre land. It is using that pumping mechanism of these trees to get that saline water back down lower in the soil.

[8.10 pm]

Hon STEVE MARTIN: I refer to budget paper No 2, volume 1, page 298, under “Income Statement”, “Net Profit/(Loss) After Tax”. According to the budget papers, the 2020–21 estimated actual loss was \$562 000, but according to page 74 of this lovely glossy brochure—which would have gobbled up a few trees or I am sure it was recycled paper—the annual report of the commission, under the “Statement of Comprehensive Income Variances”, the net loss for the 2020–21 financial year after tax was \$7.88 million. Have I missed something or there is a large \$7.3 million —

Hon ALANNAH MacTIERNAN: So you are looking at page 298 and you are looking at —

Hon STEVE MARTIN: Page 298 has an estimated actual loss of \$562 000—at the bottom of page 298. Then in the annual report—if you have not got one, you might have to take my word for it; it might have to be on notice—it reports a loss of \$7.88 million for the same year. We have a \$7.3 million discrepancy there somewhere.

Mr DE NOBREGA: That would be the valuation of the biological assets that would be taken into account. Therefore, at that time when we did the budget estimates, we did not have the valuation of the biological assets, which has an impact on the operating profit.

Hon ALANNAH MacTIERNAN: I will undertake to take that question on notice.
[*Supplementary Information No D2.*]

Hon STEVE MARTIN: I guess the immediate question is: how much of this, which arrived at a very similar time to the budget, is then irrelevant given we have a \$7.3 million discrepancy on that one item? How many of the facts and figures in here can we put faith in?

Hon ALANNAH MacTIERNAN: Unfortunately, we have not got the document that you are referring to, so we will need to have a look at that document and to verify that we are looking at the same thing, and we will provide the answer to you.

Hon STEVE MARTIN: I have a series of questions on the report which I will put on notice, minister, so we can get to the bottom of some of that.

I will move quickly to sandalwood. Page 294 of budget paper No 2, volume 1, broadly refers to the sandalwood task. As the minister will be aware, there are two streams in the sandalwood industry: there is the wildwood sector and then there is the plantation sector. The FPC has a role in both, obviously. I refer to an ABC article from 7 October from Western Australian-based research ecologist and Charles Sturt University PhD candidate Richard McLellan, who is calling for sandalwood to be added to the state and national threatened species listings, as it is in South Australia. He is claiming that if that is not done, the wild sandalwood tree could become extinct in the Australian bush. Does the FPC have a view on that research? What is your modelling telling you about the sustainability of the wild harvest in WA?

Hon ALANNAH MacTIERNAN: I do actually think that we had some advice on this the other day. As the member might be aware, I was down at Quintis, just out of Albany, opening their new sandalwood manufacturing and processing plant. This actual question was asked by the ABC. My understanding is that it is not at risk, but it is not a matter that the FPC deals with. I think that is probably a question better directed to the Minister for Environment. But I will just clarify that you are doing wild harvesting of sandalwood and you operate within a licence prescribed by the EPA. The EPA at this point in time appears to believe that the take is sustainable. We do not know what the South Australian take is like, but we would suggest that perhaps that is a question better directed to the Minister for Environment, because they are currently licensing forestry to do this. Presumably, they are doing that with the view that the level of harvesting is sustainable.

The CHAIR: That brings us to the conclusion of this hearing.

What I will say to members is, as you will be well aware, you can submit any remaining questions through the electronic lodgement system, which will close at 5.00 pm on 29 October, and I recommend that you do that.

In terms of the witnesses, the committee will forward the uncorrected transcript of evidence, with questions taken on notice highlighted, as soon as possible after the hearing. Responses to questions on notice are due by 5.00 pm on 17 November 2021. Should you be unable to meet the due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons why the due date cannot be met.

Once again, I would like to thank you very much for your attendance this evening and for your very forthcoming response to questions, so thank you. Thank you to members. We reconvene tomorrow.

Hearing concluded at 8.17 pm
