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25 OCT 2012



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Dear Mark

INQUIRY INTO THE SANDALWOOD INDUSTRY IN WESTERN AUSTRALIA

Further to your correspondence of 4 October 2012, the Forest Products Commission (FPC) is pleased to provide the following responses to questions raised by the Standing Committee on Environment and Public Affairs (the Committee) in relation to the above inquiry.

Responses are provided in two parts. Part A provides a response to questions taken on notice during the appearance of Ben Sawyer and myself before the Committee. Part B provides responses to additional questions raised by the Committee.

Please note that some information provided to the Committee is considered commercial-in-confidence and should not be made public without further discussion. Where this is the case, I have highlighted the confidential nature of information within the response.

Please do not hesitate to contact me if you have any further questions or seek clarification in relation to these responses.

Yours sincerely

John Tredinnick
DIRECTOR, FOREST OPERATIONS

19 October 2012



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Part A: Response to questions taken on notice

Question: *List the private treaties and successful tenderers, including the amount they are allowed to extract and how much they have actually extracted. (Page 6 of draft transcript).*

Response: [Commercial-in-Confidence] A list of all sandalwood harvest contracts that have been issued by FPC since 1 July 2007 is provided in Attachment 1.

Question: *What are successful tenderers and private treaty contractors paid for harvesting services? (Page 7).*

Response: [Commercial-in-Confidence] Contractors awarded contracts under competitive tender are paid between and per tonne for the harvest of green wood. A contract has also been awarded under tender for the salvage of wood from residue stockpiles and this contractor is paid approximately per tonne.

There are two contracts that have been awarded for the sale of green wood contracts under private treaty. The rates for these contracts are based on the average of rates awarded under competitive processes. The rate offered for dead wood collection under private treaty is per tonne.

Question: *Summarise who gets the end wood products and the price they pay for end wood products from Wescorp. (Page 7).*

Response: [Commercial-in-Confidence] A list of destination countries, the grades of sandalwood and the quantities sold since 1 July 2007 are listed in Attachment 2. The current FPC sandalwood price list is shown in Attachment 3.

Question: *What is the start date of the current contract with Mount Romance Australia? (Page 8).*

Response: The term of the current contract with Mount Romance Australia began on 1 July 2004 and was amended by Deed on 2 July 2008.

Question: *How is the price for seed determined? How do you figure out how much it is worth if it had to be sourced from outside FPC? (Page 16).*

Response: Seed used in native sandalwood regeneration programs is collected from plantations. The FPC carefully matches provenances used in plantation development to native forest sites. The value of seed used for regeneration is made up of the costs of collection and preparation plus any royalty payable to plantation growers.

In 2011 the FPC put out a tender for seed to be supplied for use in the native sandalwood regeneration program (Operation Woylie). Results of the tender were evaluated and all bids were rejected on the basis that they did not represent value for money to the State. This assessment was made

based on analysis that showed FPC could collect the same quantity of seed itself at a lower cost. Results of the tender were subsequently used to establish an internal price that was charged to the Sandalwood Operations Division from FPC's Nursery and Seed Centre.

Part B: Response to additional questions

Question 1

With respect to the FPC contracting out its sandalwood harvesting activities:

- a) How many harvesting contracts are there typically?
- b) Does the FPC contract out all of its harvesting or does it perform some harvesting on its own?
- c) Do FPC contractors harvest wild and plantation sandalwood?
- d) How does the FPC ensure that its contractors are complying with their harvesting contracts, for example, the seeding obligations?
- e) How do pastoral lessees who are FPC contractors compare with other harvesting contractors?
- f) How much does the FPC pay to its harvesting contractors for harvesting, debarking and grading of green and dead wood? How negotiable is that price?

FPC Response:

- a) See Attachment 1 [*Commercial-in-Confidence*]. FPC currently has 29 sandalwood harvesting contracts. A further four new contracts will be commencing 1/1/2013.
- b) FPC contracts all its harvesting operations.
- c) FPC contractors harvest wild sandalwood only.
- d) FPC has three employees based in Kalgoorlie and one in Carnarvon. These employees supervise contractors and ensure compliance to the specifications of the *Sandalwood Operations Manual*. FPC staff aim to inspect each active operation on a fortnightly basis. The FPC Environmental Management System (EMS) has provision for managing non-conformances that includes investigation, root cause analysis and implementation of corrective and preventative actions.
- e) FPC sandalwood contractors who also hold a pastoral lease are required to meet the same standards as other contractors. There have been non-conformances against contractual requirements by both lease holders and non-lease holders.
- f) [*Commercial-in-Confidence*] Contractors awarded contracts under competitive tender are paid between and per tonne for the harvest of green wood. A contract has also been awarded under tender for the salvage of wood from residue stockpiles and this contractor is paid approximately per tonne. These rates for contracts awarded under tenders are not negotiable.

There are two contracts that have been awarded for the sale of green wood under private treaty. The rates for these contracts are

based on the average of rates awarded under competitive processes. The rate offered for dead wood collection under private treaty is fixed at _____ per tonne.

Question 2

What is the FPC's view on pastoral lessees being able to harvest wild sandalwood on the land subject to their pastoral lease without having to obtain an FPC harvesting contract (but still having to obtain a harvesting licence)?

FPC Response

As a general comment, lands covered by pastoral lease are valuable for many industries including forestry (sandalwood), mining, tourism, seed collection, botanical prospecting and honey production. Pastoralists are entitled to graze livestock on this land, but do not have any exclusive rights to participate in other industries. Providing additional rights to pastoralists will severely diminish opportunities for other members of regional communities and, in some cases, provide "windfall" increases in lease values that are well beyond the value of the original lease.

Providing rights to harvest sandalwood outside the control of FPC would be detrimental to the industry and the sustainability of the resource. There are three primary reasons for this:

- ***Lack of market co-ordination and knowledge.*** The international value of WA sandalwood is maintained by selling the wood harvested from public land via a single agent engaged by FPC (currently Wescorp). Wescorp maintains a single price for every product (see Attachment 2) and these prices are set through Wescorp's knowledge of, and interaction with, the international market place.

The direct involvement of pastoralists in marketing sandalwood will fragment the sale of sandalwood from Western Australia. This fragmentation will allow international buyers to take advantage of pastoralists that do not have a good knowledge of market prices or have a need to sell stock at any price to meet financial commitments. This will inevitably result in lower returns to all participants.

- ***Increase in illegal harvest.*** The value of sandalwood and vast areas over which it grows will always make the control of illegal harvest difficult. However, the strength of the current system is that FPC field officers are able to identify clearly those harvest and cartage operations under FPC control and monitor the quantity produced under FPC contracts through our chain of custody system. Any harvest operations on public land, or wood appearing in the supply chain that is not from an FPC operation, can then be investigated.

It is only through these controls on the supply chain that the current problem with illegal harvesting has been identified. Measures can now be taken to identify and prosecute those involved in the illegal activity. If production is fragmented by awarding licences directly to contractors,

the wood produced outside of licence conditions will not be obvious and illegal harvesting may not be detected.

- **Reduced regeneration:** FPC imposes obligations on its contractors to regenerate the resource and reinvests approximately \$500,000 per annum in Operation Woylie. Operation Woylie is the successful result of many years of research into methods of seeding and regeneration.

Pastoralists awarded harvest contracts will not have the obligation, know-how or incentive to undertake the same (or any) level of regeneration. Awarding harvest contracts to pastoralists will also reduce the funds available to FPC to put back into regeneration activities.

- **Environmental compliance:** FPC requires all of its contractors to comply with its Environmental Management System, which is accredited to the ISO 14001 standard. Requirements of FPC contractors described in the *Sandalwood Operations Manual* are well in excess of environmental obligations that would otherwise be required of licence holders not under the control of FPC.

If pastoral lessees were to hold their own licences and monitoring of licence conditions is through an agency other than FPC, this will create additional costs and inefficiencies through duplication of effort.

Question 3

Is it the FPC's practice to give pastoral lessees priority when awarding harvesting contracts over their pastoral land? Why/why not?

FPC Response:

In the case of competitive tenders, the *State Supply Commission Act 1991* and *State Supply Commission Regulations 1991* are clear on the requirement for Government procurement to be open and transparent. Pastoral lessees are not given any priority in these processes.

Private treaties can be awarded by the General Manager under the *Forest Products Act 2000*. The General Manager exercises this right in certain circumstances and Attachment 1 shows that private treaties are sometimes awarded to pastoral lessees through private treaties. The most common reason for awarding a private treaty contract to a pastoral lessee is when the pastoral lessee can offer a benefit to the State through management of livestock in association with regeneration strategies.

Question 4

Who is the independent probity auditor who oversees the FPC's tender processes?

FPC Response:

In 2011 FPC employed Mr Jon Petelczyc of Global 2020 to independently audit and oversee the award of sandalwood contracts.

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Question 5

The Committee has heard an allegation that the FPC favours harvesting contractors who already have specialised harvesting and debarking equipment such as big loaders and rotary tumblers.

What are the FPC's views on this?

FPC Response:

A very important component of sandalwood harvesting tenders is for tenderers to demonstrate capacity to perform the works described in the *Sandalwood Operations Manual*. These works aim to maximum utilization of the sandalwood resource whilst minimising impact on the environment. For example, small loaders are recommended in the Manual to minimize impact on vegetation and reduce soil compaction.

Entities already involved in sandalwood harvesting often demonstrate capacity during the tender process by describing specific sandalwood equipment and resources already owned and operated. However, the important concept is "capacity" not equipment type or ownership. Tenderers not previously involved in sandalwood can demonstrate capacity through description of similar works completed in fields such as forestry, road construction, agriculture or mining. A tender will be considered a strong submission if the tenderer demonstrates the understanding, capacity and intent to install sandalwood specific equipment by the contract start date.

In awarding production contracts FPC must be confident tenderers will meet their obligations. The FPC is reliant on stable production to ensure its supply obligations to customers.

Question 6

Information from the Minister for Forestry advises that FPC operations are completed under strict environmental guidelines that are accredited to the international standard for environmental management systems (ISO 14001:2004). To maintain this certification, the operations are externally audited.

Who conducts these audits?

FPC Response:

The audits are conducted by NCS International, 7 Leeds St, Rhodes, NSW, 2138.

Question 7

How does the sustainability of the WA sandalwood industry compare to other sandalwood industries around the world?

FPC Response:

The WA sandalwood industry can proudly compare its achievements in terms of sustainability with other industries around the world. The WA sandalwood resource is one of the few sources of wild sandalwood that is not almost totally depleted through exploitation. The once abundant native

sandalwood resources of India, Indonesia, Timor, and the Pacific Islands have now been reduced to only minimal outputs.

The native sandalwood replanting program initiated by FPC through Operation Woylie is unparalleled. FPC has completed exhaustive research on regenerating sandalwood, culminating in 2011 with the implementation of a new and significant regeneration program. FPC is confident that it will replace harvested sandalwood trees into the future.

Question 8

How long will it be before plantation sandalwood is able to reliably supplement wild sandalwood in supplying the market?

FPC Response:

The quality and quantity of the plantation resource is very difficult to determine. For example, a number of plantations established by the private sector were planted with sandalwood at densities that were too high and this led to collapse prior to maturity. FPC, through field and market research expects plantation *Santalum spicatum* to require a minimum of 25-30 years to achieve a product of value. This being the case, the earliest plantation yields of oil producing wood may not be expected until 2025-2030.

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