

**STANDING COMMITTEE ON
ENVIRONMENT AND PUBLIC AFFAIRS**

**INQUIRY INTO THE SANDALWOOD INDUSTRY IN WESTERN
AUSTRALIA**

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 26 SEPTEMBER 2012**

Members

**Hon Brian Ellis (Chairman)
Hon Kate Doust (Deputy Chairman)
Hon Phil Edman
Hon Colin Holt
Hon Lynn MacLaren**

Hearing commenced at 10.33 am**TREDINNICK, MR JOHN****Director Forest Operations, Forest Products Commission, sworn and examined:****SAWYER, MR BENJAMIN****Sandalwood Manager, Forest Products Commission, sworn and examined:**

The DEPUTY CHAIR: Good morning and welcome to our committee. We just thought we would get some of the preliminaries out of the way. I understand there are some people who want to come in and listen, so we thought we would do all the niceties, if you like, and then invite them in before we start. There are just a few formalities we need to go through before we actually commence the hearing, so just bear with me as we go through.

On behalf of the committee I would like to welcome you to the meeting, and before we begin I must ask you to take either the oath or the affirmation. Please state your full name, your contact address and the capacity in which you appear before the committee.

[Witnesses took the oath or affirmation.]

The DEPUTY CHAIR: You will have signed a document entitled “Information for Witnesses”. Have you read and understood that document?

The Witnesses: Yes.

The DEPUTY CHAIR: These proceedings are being recorded by Hansard and a transcript of your evidence will be provided to you. To assist both the committee and Hansard, we ask that you please quote the full title of any document you refer to during the course of this hearing for the record. Please also be aware of the microphones and try to talk into them, and ensure you do not cover them with papers or make noise near them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today’s proceedings, you should request that evidence be taken in a closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that the publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege. I suppose I should put the question: are you happy to have evidence given in public or would you prefer to give evidence in private today?

Mr Tredinnick: I think that if it is essentially going to be made public as a result of Hansard, then we would be happy to give evidence in public today.

The DEPUTY CHAIR: Thank you for that. We should introduce ourselves before we start. My name is Kate Doust, I am the Deputy Chair of the committee. Unfortunately Hon Brian Ellis, who is our Chair, is unavailable today. Over here we have Hon Lynn MacLaren and Hon Col Holt. So, again, we welcome you. I am not too sure how many people are coming in. I am not too sure when we start whether you perhaps want to make a statement or whether you would rather just go straight into questions.

Mr Tredinnick: I think if we could make an opening statement on a couple of issues, that would be good. We have read the previous submissions on the petition and I guess there are a few issues raised in there which I think we can address by putting the context forward early.

The DEPUTY CHAIR: All right. We might just wait for people to settle themselves down.

As you are aware, the committee has just recently made the decision to launch an inquiry into the sandalwood industry in Western Australia. That decision was essentially made as a result of a petition that we received some time ago. Whilst we have received a number of submissions already, we are currently in the process of trying to seek information from the key players in the industry as to how it operates. I do note that you have a number of documents that you have brought in today that you want to table, so I thought maybe we will just deal with those before we commence. If you are able to read in the titles of those documents, then we can just have them tabled, and could you advise us whether or not you want them made public or private?

Mr Tredinnick: Yes. All these documents at this stage are either controlled documents or they are internal drafts within the FPC, so I would prefer that they were kept private at this stage, as that would be our preference.

The DEPUTY CHAIR: Okay.

Mr Tredinnick: The first document we are tabling is the “Sandalwood operations manual” dated April 2011, which are the guidelines provided to our staff and contractors for the operational management of the resource. The second document we table is a draft management plan which has been prepared by the Forest Products Commission and reviewed by DEC. It is still in draft form and is titled “Management of the Rangeland Sandalwood Resource: Western Australia”. This draft is from November 2011. The third document we have tabled for the information of the committee is a draft paper to be submitted to a journal on the regeneration of sandalwood and the work the FPC has done to develop regeneration practices. That paper is titled “Sandalwood (*Santalum spicatum*) regeneration establishment in the semi-arid and arid regions of Western Australia”.

The DEPUTY CHAIR: Thank you. We will note that those documents will stay private. If you would like to make an opening statement, that would be very good.

Mr Tredinnick: I guess I would just like to talk about two areas of sandalwood management which are relevant to the inquiry. One is in terms of sustainability, and the other one is in terms of marketing of the resource by the Forest Products Commission. Just in terms of sustainability, as you would be aware, the native sandalwood resource is located in WA’s Rangelands region. I think it is fair to say in general that this region is severely degraded. That is as a result of grazing of livestock over many decades, and also through the introduction of feral animals over time, particularly goats and then also cats and foxes, which have particularly affected the populations of native marsupials out there. The degradation is such that there is no longer any significant natural regeneration of sandalwood. That is particularly as a result of grazing of any young seedlings that establish, but also perhaps more so in terms of the localised extinction of the woylie. The woylie has played a major role in the natural regeneration of sandalwood in the past.

So we have a scenario of no natural regeneration, and hopefully something that we will talk about this morning in terms of increased illegal harvesting of sandalwood. I do not really think it is possible for anyone to make claims that the current level of cut is sustainable in terms of the traditional definition of “sustainability”, and that is not something FPC will be putting forward. We think there are three challenges in that context for the management of the resource. The most immediate one is to address this issue of illegal harvesting, which does seem to be running rampant over the last six to 12 months. We need to continue with the successful regeneration program that the FPC has put in place. That has developed in leaps and bounds over the last 10 years to the point where we sowed about 10 tonnes of seed last year and we are expecting a very good uptake of that, and I hope there is an opportunity today to talk about that a little bit more.

We also need to manage a transition from an industry which is based at the moment almost solely on wild, native sandalwood to one that is based on a lesser amount of native sandalwood over time

but supplemented by plantation-grown sandalwood. That is a transition which, as an industry, we need to have a plan for over time. I think it is inevitable that we will get to that point.

We do not support any calls to end the native forest harvest of sandalwood. We do not think that is in the best interests of the industry. That would essentially mean closing down the infrastructure, the markets which have been developed, and then when the plantation sandalwood starts to come on-line that would have to be cranked up again and markets redeveloped. We think there needs to be a managed transition over time, and we do not think that would include phasing out the wild sandalwood we would harvest; there would probably be a reduction in the wild sandalwood to integrate with the plantation harvest.

In terms of marketing, reading through some of the submissions in relation to the petition, I think it is really important that we provide a bit of context on why FPC markets the sandalwood the way it does. The overall objective of our marketing strategy is to maximise the benefit to the state. In any forestry operation maximum benefit is achieved by full utilisation of any tree harvested. That is what we are trying to achieve in our native forest operations, it is what we try to achieve in our plantation operations with our softwood plantations, and sandalwood is no exception to that. When we harvest a tree we have got to try to utilise everything that is produced and develop markets for that. In terms of sandalwood, all the woody components of a sandalwood tree can be utilised, from the roots right through to the finest branches; and there is also in addition to that a market for the deadwood, which is found on the ground. But the important thing to recognise is that the oils that give sandalwood its values are contained only in the green logs, the butts and the roots. The remainder, particularly the deadwood and some of the finer branches, do not have that value but they can be used in the manufacture of incense and religious products for an industry known as the agarbatti industry, which I will be referring to a bit today. So by doing that, by selling high-value wood and also lower value wood in the agarbatti industry, we are able to get all the utilisation by producing products that range in value from probably the lower end at about \$3 000 a tonne to the very top end at about \$15 000 a tonne. But that is a small volume to a fairly niche market at that sort of level. There is a range of prices depending on the quality of the resource.

The average sale price for all our products at the moment is about \$6 400 per tonne, but nothing like some of the figures we have seen quoted in submissions that have come into the committee.

There are two primary issues when we supply this agarbatti industry, which is essential for the marketing of all of the wood. One is that this is an industry which is important to Asian cultures but the market for agarbatti in Australia is actually very small. There is a niche market for mosquito repellents and a few other products, but the bulk of the volume is in international markets. The other critical issue is that the products we provide to the agarbatti market, while they use low-grade sandalwood, that low-grade sandalwood actually needs to be blended with a proportion of high-value sandalwood in order to give it some of the aroma and some of the unique features of sandalwood. So, that gives us a real marketing challenge. We are very keen to support the domestic oil industry by providing high-grade wood to that industry, but the domestic industry does not have the demand for the low-grade products, so we have developed an export market for those low-grade products in the international agarbatti markets, but we need to blend those low-grade timbers with some of the high-grade oils in order to sell into that market. So, we need a mix. If we want to continue to supply that agarbatti market and continue to maximise the utilisation of the resource, there is only so much high-value wood that we can sell directly into the domestic oil industry. If we sell all of our high-value wood in the domestic oil industry, we cannot produce those blended products and have something we can sell overseas. In terms of the domestic market, FPC has a contract with Mt Romance to sell a large proportion of the available high-value wood—about 550 tonnes. That contract expires in 2016, and really that is about as far as we can go as far as sales into the domestic market. If we go any further in selling high-value wood, we are compromising our ability to sell low-value wood. So, while FPC has a number of requests for high-value wood, there is not really any additional high-value wood we can sell into the domestic market without

compromising our other marketing strategies and essentially leaving lower value wood out in the bush.

[10.50 am]

I guess the question then comes up: does that mean a loss of jobs or income to Western Australia by taking that strategy? We do not think so. We think we are actually maximising jobs and income to Western Australia through the strategy that we are taking, because the process of producing products to sell into the international market involves taking the wood into Wescorp's factory in Canning Vale—Wescorp are engaged as an agent to FPC—producing a pre-grind product, then producing a powdered product and mixing those powdered products in order to produce a blend that can be sold overseas. That is a fairly labour-intensive process. So, if we were to stop current practices to supply local demand for oil distillation, I think we would have two things happen; we would lose a market for low-grade sandalwood, which would reduce income to the state and possibly there would be a loss of jobs in WA as well. Loss of income would also impact on FPC's ability to continue its regeneration program. That is a program that we put close to \$500 000 a year towards. It is not an obligation which FPC has in any arrangements with DEC or government; it is something that we just think is the right thing to do in terms of sustainability. We also put that money into the management of sandalwood plantations. We have about 6 000 hectares of sandalwood plantations which are the future of the industry. So, if we do not have that income, we cannot be supporting these other elements which are essential to sustainability.

They are the points I really wanted to make just to provide a bit of context which might help with some of our subsequent answers to your questions as well.

The DEPUTY CHAIR: At that point, before we talk about the illegal harvesting and some of the other issues, we do actually have a series of questions around those topics you have got. We might actually start to work through the questions that we have on marketing and then perhaps once we have dealt with that then come back and have a look at the issues of the illegal harvesting and then the sustainability issues. We have received a range of submissions, so the questions we put to you are based upon the information that has been given to us to date and we are just trying to clarify some of the points that have been raised with us.

The committee has been advised that the FPC awards its marketing and sales agency contracts by a tender process, so what we are hoping is that you could explain to us what is involved in a typical tender process for marketing or sales agency contracts.

Mr Tredinnick: Just in general the way FPC would approach a tender process?

The DEPUTY CHAIR: Yes.

Mr Tredinnick: The way we would approach a tender process usually would be to develop a procurement plan initially, which would be reviewed by the executive of FPC. Once we are happy with that procurement plan, which would outline the strategy we were going to take, our contracts branch would then produce tender documents which would be reviewed and those tender documents would go out and we would receive requests for tender on that basis, which we would evaluate. That is when we go to market with a tender and as part of that process as well, depending on the size of the transaction and the nature of the transaction, we would engage a probity auditor to review the process, which we have done in the past in terms of sandalwood contracts. FPC also has under the act the ability for the general manager to enter into private treaties. The general manager exercises that right on occasions —

The DEPUTY CHAIR: Can you explain what the private treaty involves?

Mr Tredinnick: The private treaty process involves entering into just a one-to-one contract with a particular party, whether it be a contractor or a buyer.

The DEPUTY CHAIR: So that is over and above the tender process?

Mr Tredinnick: That is right. So we need to go out to competitive tender or enter into a contract based on a private treaty process. But we would only enter into a private treaty process where we think that is in the best interests of providing a benefit to the state or we do not think there is actually sort of any competition in that area.

The DEPUTY CHAIR: How often would that occur?

Mr Tredinnick: Our current sandalwood contracts are probably a good indication. Our current sandalwood contracts, I think there is about 50 per cent under —

Mr Sawyer: Yes, that is right. Currently, the most common one in the sandalwood industry is where the pastoralists can offer a benefit to the state through management of livestock around regeneration strategies. In that case, the Forest Products Commission has entered small-scale, 10 to 20-tonne per year, deadwood-only harvesting contracts, which require very little equipment that would otherwise be typically associated with green harvest. Contingent with that is a regeneration program that pastoralists then commit to managing their livestock around. So, they are smaller-style contracts that require less input, and that benefit to the state is demonstrated through that regeneration management.

The DEPUTY CHAIR: Those private tenders, do they tend to be the same organisations or individuals that are offered that opportunity time after time, or does it vary?

Mr Sawyer: The FPC has basically an open policy to any pastoralist; in fact, we actually try to encourage it. We have written articles in the *Pastoral Lines* magazine, for example, to encourage pastoralists to become involved with sandalwood harvesting at that private treaty level. We have got an officer based in Carnarvon who actively is working in the supply areas that we have in those regions to basically involve pastoralists in sandalwood harvesting at that level. Beyond that, pastoralists are encouraged to participate in the tender process for those larger contracts that involve a bigger investment of capital.

The DEPUTY CHAIR: I think you have just said that on the last process that 50 per cent were under private treaty. I suppose the follow-on question would be: are any marketing or sales agency contractors predetermined, with the tender process just becoming a formality? So if you have already allocated 50 per cent to private treaty, of the other grouping, were any of them predetermined that certain individuals would be looked at?

Mr Tredinnick: In terms of competitive tenders?

The DEPUTY CHAIR: Yes.

Mr Tredinnick: Absolutely not, and that is where we might engage a probity auditor just to make absolutely sure that there is no perception even that that could have occurred.

The DEPUTY CHAIR: I would then ask if you could explain how Wescorp became the FPC's marketing or sales agent.

Mr Tredinnick: I guess the appointment of Wescorp was before my time in FPC. I have been with FPC about 12 months.

Mr Sawyer: The most recent contract was 2004.

Mr Tredinnick: And I understand that was under a competitive tender process, so the same sort of process as I outlined.

Hon COL HOLT: Is there any chance of finding a list of who has been awarded a private treaty and also the successful tenderers?

Mr Tredinnick: Yes.

Hon COL HOLT: Maybe, I do not know, the last five years on a yearly basis.

Mr Tredinnick: We can do that—no problem—for both contractors and sales?

Hon COL HOLT: Private treaty, which you are calling contractors?

Mr Sawyer: Yes, they are all contractors and work under the same conditions outlined in here as all our contractors.

Hon COL HOLT: And successful tenderers would be useful too, and the amount of wood that they are allowed to extract and how much they actually have extracted.

Mr Tredinnick: Yes.

Hon COL HOLT: Can I ask another question that goes a little bit back to where we were before? So, DEC basically manage the resource, do they not, or they set the harvest levels—do they? I guess I am trying to find out how it works. Here we have got DEC doing something, FPC doing something, Wescorp and other contractors and Mt Romance doing some stuff, and I am just wanting to try and track that through and how it actually all works.

Mr Tredinnick: DEC set the harvest limit through an order-in-council, and the last order-in-council was 1996.

Hon COL HOLT: It was 1996?

Mr Tredinnick: Yes, that is right, and that sets a harvest limit of 1 500 tonnes of, essentially, the bole wood, which includes the root system and the bole of the tree.

Hon COL HOLT: So 1996 was the last time they set that limit?

Mr Tredinnick: That is right, and then they license within that limit. Of that limit, FPC has licences which we, with DEC, give to our contractors, because the regulations actually require that it is the person who actually pulls the tree out of the ground that must have the licence. So, we provide those licences to our contractors and we have an allocation within that 1 500 tonnes of 1 350 tonnes and that is of what I described as the bole wood; any branch wood or deadwood falls outside that and we have separate contracts for that with DEC. So, DEC are responsible for the licensing.

Mr Sawyer: That is the greenwood and then similarly the order-in-council states that there is a maximum of 1 500 tonnes of deadwood per annum that can be harvested, so a total of 3 000. Similarly, to the green bole wood that John just described of 1 350, FPC has an allocation of 1 350 maximum for the deadwood harvest as well, again, under licence, which is harvested in an integrated operation with our larger contractors awarded through tender or by the private treaties and all contractors separate.

Hon COL HOLT: Just to paraphrase for me, so DEC says, “You can take this much wood”, you guys then send out some tenders or private treaties to give people and “Here’s your allocation of wood that you can take from particular areas.” Then what happens once a contractor has gone out there and taken his allocation? What is the next step for them?

Mr Tredinnick: We monitor the contractor’s allocations through the deliveries that they make through Wescorp. So, even when we supply wood to MRA, that wood goes to Wescorp first and is then transferred to Mt Romance.

Hon COL HOLT: MRA?

Mr Tredinnick: Mt Romance.

Hon COL HOLT: So the guy goes out in the bush, gets his contract for 20 tonnes —

Mr Tredinnick: Yes.

Hon COL HOLT: Then what does he do?

Mr Tredinnick: He then delivers it to Wescorp.

Hon COL HOLT: Wescorp?

Mr Tredinnick: That is right. We have a weighbridge at Wescorp where we record how much has been delivered against the contractor. Then we pay the contractor on that basis and we monitor the production against the contract volumes through those deliveries. Of course, during the year we might have some contractors who underperform and some contractors who meet their quota quite quickly. So, at the end of every quarter, we have got an arrangement with DEC where we will sit down, look at how contractors are going and talk to a contractor, and we might shuffle volumes around where we are still aiming to get to that licence limit by the end of the year.

[11.00 am]

Mr Sawyer: Can I just add a point just to clarify where I think you might be going with that question? We are not actually paying for the wood from our contractors for FPC; we are not purchasing the wood or buying the wood from them. What we are paying them for is the service of producing debarked and sorted wood stacked in pallets in the bush. That is the service they provide. It is not a purchase. The wood remains FPC's property, by which we then organise a transport contractor—again, one through public tender—to deliver it to Wescorp. So, FPC controls each of those stages of production and retains ownership of the wood throughout that process.

Hon COL HOLT: So maybe if we get a list of private treaties and the amount they are paid for that service, that would be useful, too. When it gets to Wescorp, then you kick in your marketing strategies about blending. So 550 tonnes go to Mt Romance through that process and other markets—whatever they are—or other end users. Do we know who they are?

Mr Tredinnick: Yes, we do. Wescorp are agent of FPC, so they are selling on behalf of FPC. All the contracts are in FPC's name, so, yes, we get a monthly summary of who they are selling to.

Hon COL HOLT: Is there any chance we can perhaps have a look at that, too—the summaries of who gets the end wood product and the price they pay for that from Wescorp?

Mr Tredinnick: Yes, we can get you that. We will have to get advice on to what extent that can be made public, but I would say it is more likely that it is private, but we can get that to you.

The DEPUTY CHAIR: The committee can treat that information in private just for our own purposes.

Mr Tredinnick: We would prefer that is the case, but we can get you that information.

Hon COL HOLT: Thank you. Sorry for distracting you.

Mr Tredinnick: For what period of time would you like that information over—12 months? We can get it for the last financial year, for example.

Hon COL HOLT: Maybe a bit longer than that, I think. Maybe for five years, if you can get it to us. A one-year snapshot is probably not going to be enough.

Mr Tredinnick: Will you be giving us a summary of the information that you require or do you want us to write it down?

The DEPUTY CHAIR: It will be in the transcript, so you can review it.

Hon COL HOLT: If you need us to summarise it, maybe we can.

Hon LYNN MacLAREN: I just want a few more details on the arrangements that you have got with various companies. The committee has been advised that Mt Romance has the contract to receive 550 tonnes per annum and you have just reported that to us again. The price paid for this wood under the supply contract is well below the international market value of the wood according to our information. So, why is the price paid by Mt Romance well below the international market rate? Can you explain whether there is the capacity to build in price increases into the long-term supply contracts that you have got?

Mr Tredinnick: I think that is the case with the Mt Romance contract. The parity with international prices increases during the term of the contract.

Hon LYNN MacLAREN: Okay. Why is the price paid by Mt Romance below international market rate now?

Mr Tredinnick: Look, I do not think either of us were involved in the negotiation of that contract at the time, so it is not a question I am able to answer.

Hon LYNN MacLAREN: Was that the 2004 contract that you were talking about? So 2004 to —

Mr Sawyer: Sorry; no. The Wescorp contract is the 2004.

Mr Tredinnick: Mt Romance was 2006–2007.

Mr Sawyer: Yes. We might have to take that on notice to double-check.

Mr Tredinnick: We can confirm that.

Hon LYNN MacLAREN: When was the Mt Romance contract awarded, I guess?

Mr Tredinnick: It was around 2007 or somewhere in 2006.

Hon LYNN MacLAREN: How long does that go for; do you know?

Mr Sawyer: Till 2016.

Hon LYNN MacLAREN: Why is there a need to award such long-term contracts and guarantee the supply of so much green wood to one particular producer of sandalwood?

Mr Tredinnick: Again, that was a decision made by the FPC executive at that time in 2006 or 2007 and it is not something that I can answer. Going forward, when we will look at this from 2016, I think we will certainly look at whether that is the best strategy—to enter into a contract with one party over a long term for pretty much the maximum amount of green sandalwood that we can sell domestically—or whether that should be broken up into a number of chunks and diversify the industry. If it is a competitive tender process, then, I guess, Mt Romance would have the chance to bid on a number of different parcels, but I think we would be trying to open it up to more domestic processors. That would probably be an alternative strategy going forward, but nothing we have decided on yet. It is something we are reviewing.

Hon LYNN MacLAREN: Obviously, these questions draw out information that we have received in our submissions, so it is really important that you respond to them. It has been alleged that the FPC, which was formerly CALM, has been and continues to subsidise the Mt Romance oil extraction business at the direct cost of more than \$5 million per annum. What are your views on this?

Mr Tredinnick: In terms of the quantification of that subsidy, it is not sums that we have done, but it is something we can look at and provide advice on. If Mt Romance are being supplied at a discount to the international market, then you might call that a subsidy. I think that the purpose of that contract was to support domestic oil processing and get that industry started, but with a recognition that as we move forward, the prices need to approach the international market. So, it was a subsidy for the purpose of developing the domestic market, if you want to call it a subsidy.

Hon LYNN MacLAREN: So it was not actually pursued as an industry incubation-type strategy? I mean you do not actually explicitly say that you wanted to incubate a new industry and therefore you chose this way to do it. It was just —

Mr Sawyer: Not specifically. It is my recollection of what was going on in the late 1990s when that original contract with MRA was initiated.

Mr Tredinnick: Again, I would not want to hypothesise on what the strategy was of the people who negotiated that contract six or seven years ago. I cannot tell you.

Hon LYNN MacLAREN: I mean, that is the kind of thing a government could make a decision to do, but I am not aware of that decision.

Mr Tredinnick: I guess it probably goes back to the charter of the FPC to some extent. Under the act, we have a requirement to make a profit and make a return to government, but that sits very much parallel with an industry development objective and that is something we try to balance. It is not our task to make as much profit as we possibly can at the expense of local industry development. We need to balance those two things. I suppose the structure of the Mt Romance contract is trying to do that.

The DEPUTY CHAIR: Earlier you talked about the need to be able to access some high-grade wood to mix it with the low-grade wood for some of the products that you are able to market overseas. How much high-grade wood is actually required for that purpose?

Mr Tredinnick: I think the ratio that we are working on at the moment is about one to four. So for every four tonnes of low-grade wood—it depends on the product—roughly we need about one tonne of high-grade wood to mix in. There are various powders that are produced depending on what the customer requires, but on average it is about one to four.

The DEPUTY CHAIR: I suppose, if there is a need for this high-grade wood and given that you have already got the automatic supply of 550 tonnes a year of high-grade wood to Mt Romance, does this result in a problem for local producers to be able to access enough high-grade wood at a local level?

Mr Tredinnick: It does, and that is why you are seeing some of the submissions that you are seeing from local producers. If we were to supply that high-grade wood to the local industry, we would not be able to market that low-grade wood. We would be essentially leaving that out in the field and only extracting the high-grade wood.

The DEPUTY CHAIR: Can you just perhaps tell me—we have talked about overseas markets—what are the key markets currently being tapped into for Western Australian sandalwood and what are projected markets, if you like?

Mr Sawyer: The key market for the long term for Western Australian sandalwood has been Taiwan. Taiwan is basically a country of, effectively, Chinese origins, but has been able to continue with their religious practice and their buyer requirement for the agarbatti products into their religious ceremonies and practices. Other countries—and Hong Kong being the other slightly smaller one—have been the longer term markets. More recently, as China has perhaps relaxed some of their controls over the practice of religious ceremony, China is evolving into possibly FPC's largest market. Certainly a lot of the production of incense occurs in China and then may be sold back into other markets. Taiwan, China and, to a lesser extent, Hong Kong are the key markets. Other countries that are not less important but less in terms of volume that we are selling into include Malaysia and, to some extent, India.

The DEPUTY CHAIR: Are there any barriers in some of those countries—I am thinking perhaps India—for Australian sandalwood?

Mr Sawyer: Not a great deal. I believe that the natural resource in India has become quite rare on the ground and there has become quite a demand for other sandalwood products, of which WA sandalwood is one of many around the world. Western Australian sandalwood is the largest possibly in volume—certainly in legal volume—produced, and thereby reputable companies have a strong desire to be able to purchase it. There is a certain level of bureaucracy with exporting into India that we do not have in other places, but generally there is not a great deal of restriction.

The DEPUTY CHAIR: Do you utilise the Western Australian trade offices to facilitate those opportunities?

Mr Sawyer: We do not.

The DEPUTY CHAIR: You do not?

Mr Tredinnick: That is why we engage Wescorp. They have knowledge of those markets and it is their job to market that wood internationally.

The DEPUTY CHAIR: But are you aware of whether or not they engage with the trade offices to provide that assistance?

Mr Sawyer: I do not believe they have needed to. The markets, particularly those older ones that I mentioned—Hong Kong and Taiwan in particular—are generally into third and fourth generations. We have got one particular customer who has had a relationship with Western Australian sandalwood back into, I believe the late 1800s. So, in many cases those markets are very much established, and this goes to the importance of the WA sandalwood brand that FPC is maintaining is vital for future industries to maintain, because these markets traditionally are long and well-established. Of course, there are always new markets that can be established, but, as a general rule, the limited amount of supply that Western Australia can put into the international market generally does not go anywhere near supplying the demand.

Hon COL HOLT: It is a similar line, but I want to get on to illegal harvesting. I have got a question for you or a chance to make your pitch. FPC is in the middle of all this game from DEC issuing some licences and a selling point; you guys play a role in the middle. Why? Why do we need FPC in that spot?

Mr Tredinnick: I think what we have just outlined in terms of the marketing strategies is the importance of a central agency to coordinate that marketing. Because of the importance of identifying the markets, what those markets require, how the different grades of wood need to be blended to maximise the benefits from those markets, there does need to be a central agency involved in order to maximise the benefit to the state. I guess another model being proposed is that perhaps pastoralists or other contractors could just harvest sandalwood on a royalty basis and sell into the market. Without a coordinated marketing strategy, I think they would be absolutely crucified by the international buyers as a result of the way the market is structured.

The DEPUTY CHAIR: But why would that happen if you have got Wescorp acting on their behalf to get the product to market?

Mr Tredinnick: You still need the management of those contractors on the ground as well. The document that we have tabled, the “Sandalwood operations manual”—we have some very strict environmental requirements for our contractors and FPC has the task of managing the performance of contractors against those environmental requirements, as well as against the quotas that they are licensed to harvest. So, we play a role in the management of the harvesting contractors, which is our business. I guess FPC is essentially a contract management agency at the moment. We also play a role in the marketing side.

The DEPUTY CHAIR: We will just have one more question on the marketing issue and then I think we will start to talk about the illegal harvesting.

Hon LYNN MacLAREN: I was going to ask about the sustainability, because I think that leads on to that.

The DEPUTY CHAIR: All right.

Hon LYNN MacLAREN: You sort of touched on the role that FPC is playing in regulating what is a state resource, which you have mentioned is not a renewable one at the moment. Certainly, the wild harvesting does raise questions about sustainability, as you acknowledged yourself in your opening comments. So, I would like just to tease out a bit more about that. Is the harvesting of wild sandalwood sustainable? Have you actually assessed the resource and how long it would last at current rates of harvesting?

Mr Tredinnick: We have continually done assessment of the resource. Before FPC was established, Ben was with DEC and he actually was doing inventory of the resource and providing input into the sustainability level. Ben has continued to do that with his team with FPC for us to get a feel of the extent of the resource and whether it can be managed at the current level over time. Having said that, this resource occurs over about four million hectares, so it is not as easy as walking into a pine plantation and measuring the trees and you have got clear boundaries of where that pine plantation is. There are always high levels of uncertainty around any assessment of the sandalwood resource. The estimates we have made certainly suggest that we cannot continue at the current level in perpetuity, which I guess is the standard definition of sustained yield in forestry—that you can continue to do this forever. There has been a gap in the regeneration of new sandalwood because the vectors responsible for natural regeneration are no longer there—that is, the woylie—and we have begun the regeneration program over the last 10 years, which is now yielding results. We have a gap. We have a very old population of sandalwood trees and some new recruits, so we have a gap in there. In our view, it will be necessary to reduce the harvest of the wild sandalwood over time, but we do not think it needs to be reduced down to zero, it needs to be, as I said earlier, transitioned into use of the plantation estate. Now, when that plantation estate is harvested, that might be harvested, say, anywhere between 20 and 30 years after planting. That wood will not have the same quality as a wild sandalwood tree that has been growing for 100 years, so there will still be a need to produce these blended products to access the markets. So, we will still need some of that wild sandalwood in order to develop the industry for the plantation sandalwood.

Hon LYNN MacLAREN: So have you actually developed the time line for that transition? You have talked about a transition, but what are we talking about in terms of time? Are we immediately looking at a reduction of the harvesting of the wild sandalwood in order to secure it long into the future?

Mr Tredinnick: I guess we have considered that internally, but for it to be government policy, it needs to be a discussion between ourselves and DEC, and that has not occurred yet in terms of time frames. But I guess the time frame nominally we have been working on is an assumed reduction from about 2016. We have commitments to 2016 to supply Mt Romance. The Wescorp contract expires in 2014. We think that that first point of considering reduction probably should be around about 2016. Then when we model our evaluation—for example, for financial purposes—we then have another step down around about 2025.

Hon LYNN MacLAREN: So what is the impact? This will lead on to the questions about illegality that I know my colleagues want to ask. What is the impact of illegal harvesting on the sustainability of the resource?

Mr Tredinnick: It is substantial. It is huge. Over the last six to 12 months, I guess, our estimates based on feedback we are getting from international markets and feedback we are getting from DEC is that there could be as much as 800 tonnes of illegal sandalwood which is being harvested.

Hon LYNN MacLAREN: Over what period?

Mr Tredinnick: Over the last 12 months. The illegal harvest does not tend to pull the tree out of the ground and maximise utilisation; it is usually cut off at the base—cut the top off —

[11.20 am]

Mr Sawyer: Taking the log out.

Mr Tredinnick: Yes, just taking the log out. So, in terms of the impact on sustainability in terms of the way we would measure sustained yield of the high-quality wood, it is probably greater than that 800 tonnes. So, if it keeps going at that rate, it is going to have a substantial impact on yields over time.

Mr Sawyer: The illegal harvesters are effectively wasting two-thirds of every tree that they harvest by just cutting it off at the ground. They want to do a quick grab and go, so it is a cut-off at the

ground with a chainsaw and a cut-off at the major, as we understand, crown break and they just take that log; it is not even debarked.

Hon LYNN MacLAREN: So they are not maximising the return, are they?

Mr Sawyer: No; it is devastating.

Mr Tredinnick: No. They are trying to get in quickly and move on.

Mr Sawyer: Can I just add something just to maybe provide a bit of background for your question? If you refer to the tabled document “Management of the Rangeland Sandalwood Resource”, pages 47 to 52, without going through that in detail as it sounds like we need to move on, that has the very specific modelling of an approach to managing the industry where you no longer harvest versus what FPC is proposing is a 10-year plan modelling the population over a 140-year time frame. There is probably some information there that will give you some good background.

Mr Tredinnick: Yes, we have developed some scenarios.

Hon LYNN MacLAREN: So what is the status of this document? How does this document get adopted and at what point? Having an idea about it is one thing, but is it actually going to —

Mr Sawyer: This is effectively our management document. But as it falls to DEC as the regulator for Western Australian native flora, it has been deemed that whilst we use this as a management document, it may clash with DEC’s role as a regulator to have it formalised.

Hon LYNN MacLAREN: At what point do you hope this is adopted—that your management manual —

Mr Tredinnick: Look, we would hope probably over the next six months. We have engaged with DEC through this process, but we would like to make this into almost an official document that we are all working to in terms of the management of the resource. At the moment, as you will see, there are scenarios in terms of future yield. They need to be fleshed out, but fleshed out with DEC and other interested stakeholders as well.

Hon LYNN MacLAREN: And your intention is to do that over the next six months?

Mr Tredinnick: That is right. With the Wescorp contract expiring in 2014 and then after that the MRA contract expiring in 2016, it is essential that over the next six months we have a firm strategy for how we are going to approach the management of this industry going forward.

The DEPUTY CHAIR: I note that yesterday Minister Marmion put out a press release announcing a compliance operation into illegal harvesting. I do not know whether you have seen this press release or not.

Mr Tredinnick: No, I have not.

The DEPUTY CHAIR: In this he talks about some figures since March of last year about the amount of tonnage seized by both DEC and the police from a range of places. Admittedly, the figures are a lot lower than the 800 tonnes that you have talked about, but how often do these sorts of compliance operations happen? Is this the first?

Mr Sawyer: My understanding is it is very reactionary to the early pick-up of a few smaller scale illegal operations, which basically heightened a bit of awareness to it. There were reports coming back from some of the markets that this wood was appearing. So the more recent larger newspaper reported sandalwood busts that you have seen, from my understanding, are very reactionary to those earlier observations. It seems to me that the police are on board with it as well, which is how some of these trucks are being pulled over and caught. So, it seems a reactionary-type response.

Hon LYNN MacLAREN: So they are saying 166 tonnes over the last year—since March last year, so a bit more than a year—and 75 tonnes last year from one property and 40 tonnes from the

goldfields in the last two months. That does not equal the 800 tonnes that you mentioned earlier, so is there still some that is sneaking out into the black market?

Mr Tredinnick: Yes, absolutely. This is only what has been caught. Our customers overseas report when they see sandalwood coming from Western Australia into Taiwan or into Hong Kong which they know is not from FPC; we get notified of that. So, we get a gauge of what is happening in the international market as well.

Hon COL HOLT: I guess that is where my question was going to go. A sandalwood log looks like a sandalwood log. How do you know and how do you track it? If people are taking—we know they are—illegally harvested wood, where does it go to? What is your best guess about where it goes to and how they actually get it to a market?

Mr Tredinnick: I guess through Wescorp. They just had an opening of a new facility a couple of months ago and one of the investments in that new facility was a bagging plant where we actually put the powder into a bag which can only be used once and it has “Forest Products Commission” written across it, “WA sandalwood. The bag cannot be re-used.” The sandalwood in that bag goes to our customer overseas. If they see wood turn up in something other than that bag, they know it is more than likely from an illegal source.

Hon COL HOLT: So Wescorp only get your sandalwood?

Mr Tredinnick: No; Wescorp also purchase sandalwood from other sources as well. We have access to, as we said, 1 350 of the green sandalwood. There is also another 150 which comes from private property operations. Wescorp might purchase that, but they segregate that at the plant and it is not sold as WA sandalwood.

Hon COL HOLT: Can they tell if they are receiving illegally harvested sandalwood?

Mr Tredinnick: It is probably a question for Wescorp. It is another part of their business. But our expectations and what they advise us is that they are looking for proof that the person who is selling them the Sandalwood actually has a licence to harvest that sandalwood. One of the difficulties always is how do you know how much sandalwood has actually come off that licence. You have bought five tonnes off a five-tonne licence, but how do you know if somebody else has not bought five tonnes off a five-tonne licence? One of the things that really needs to be put in place as well as part of addressing illegal harvesting is to have a chain of custody system throughout the supply chain so that everything is reconciled through to the point of final use so that we know if there has been some double-dipping.

Hon COL HOLT: We have heard evidence, or we have been supplied with evidence, that the amount of oil that is produced is way beyond the amount of wood that is harvested. So, somewhere along the line, someone is using illegally harvested sandalwood to produce more oil than can actually physically do it. I guess Mt Romance are the key oil producers in the state, aren't they?

Mr Tredinnick: There are other oil producers in the state.

Hon COL HOLT: How do the other oil producers get their wood?

Mr Tredinnick: That is something you will have to ask those oil producers.

Mr Sawyer: It is a good question to ask, though.

Hon COL HOLT: As a final question, the rangelands is a big place and we have got plenty of borders over there. If someone harvested from within the rangelands, they could potentially take it to the Territory or Queensland or anywhere else. How do you guys track that or do you know of it or do you actually bother tracking it?

Mr Tredinnick: I think one of the interesting aspects of the last couple of sandalwood seizures has been that there are trucks heading the other way across the border. I think one truck was pulled over in Eucla on its way through to South Australia and another one was —

Mr Sawyer: Another one was in Iron Knob, as I understand it, in South Australia.

Mr Tredinnick: Yes. So the action that DEC and the police are taking is addressing the other side of the rangeland as well as the wood that heads east. But it is not a role, apart from reporting any knowledge we have of illegal harvesting; DEC has that enforcement role.

The DEPUTY CHAIR: Are there any penalties imposed where they detect illegal harvesting?

Mr Tredinnick: The penalty under the Sandalwood Act is the confiscation of the equipment involved in illegal harvesting and I think it is a \$200 fine. I think there is a slightly more substantial fine which is imposed under the Wildlife Conservation Act.

Mr Sawyer: Yes, it is probably a question better put to DEC as the regulator, but, as I understand it, they tend to follow this through the Wildlife Conservation Act because the penalty is better than the Sandalwood Act, as we have just mentioned. But, I think, even compared to the value of the wood under the penalties prescribed under the Wildlife Conservation Act, including the possibility of forfeiture of equipment involved in that —

Hon COL HOLT: You can take their chainsaw off them.

Mr Sawyer: It is still something that we would think would need review.

Mr Tredinnick: There was a case recently where the truck that was pulled over did not actually belong to the people who were driving the truck, so how can you confiscate that truck? I guess it is our view that two things need to occur in terms of the management of illegal harvesting. One is that the state legislation and regulatory framework need to be improved so that those penalties are more substantial. We are also watching carefully and engaging with the commonwealth on the Illegal Logging Prohibition Bill that I think has gone through the House of Representatives and is about to go through the Senate in the commonwealth. The way that is developing, that will put a different angle on the management of illegal harvesting where there will be an onus on someone receiving wood to demonstrate that it is legal, rather than proving that it is illegal. That has proved very effective in the trade of tropical wood products from Indonesia, Malaysia, Solomon Islands et cetera particularly into Europe and the United States, where they have similar legislation. Legislation like that, in conjunction with perhaps an independently verified chain of custody process, we think, would be quite powerful in addressing the issue of illegal harvesting.

[11.30 am]

The DEPUTY CHAIR: When the timber has been confiscated where it has been found to be illegal, what actually happens to it?

Mr Tredinnick: To our distress, to some extent, it has been offered to processors. So, I think there is a blind auction that occurs.

Hon COL HOLT: By who? By DEC?

Mr Tredinnick: By DEC. It is not coming back through FPC. We have very careful marketing strategies to put the wood that is available in place in international markets and then this wood that is confiscated then can get sold to someone who then sells this wood into the market. The wood still finds itself competing with the legal product. We would like to see it at least go —

The DEPUTY CHAIR: Do the moneys raised through auction go back into DEC then?

Mr Tredinnick: I think that is a question for DEC. We would certainly like to see that happen, and I guess our preference would be that that wood comes back through FPC so at least if that wood is going to go on the market, there is some orderly marketing of that wood and it does not disrupt the market for the legal product.

Hon LYNN MacLAREN: We had a couple of questions about seeds or did you have another question?

Hon COL HOLT: No.

Hon LYNN MacLAREN: We received evidence that seeds used to generate wild sandalwood in the rangelands were actually coming from the wheatbelt. We know that the genetic properties are different from those plants, but is that a concern to you?

Mr Tredinnick: That is something we have reviewed in detail with scientists from DEC, because that is an ongoing concern we have that, as part of our regeneration program, we do not want to be putting provinces back in locations that are not their natural origin. So we are very careful on the seed lots that we use to establish regeneration. That does limit us to areas south of the line from Coolgardie.

Mr Sawyer: Yes. Basically, the best way to define these two provenances that have been shown so far by research is the 250 millimetre rainfall isohyet or thereabouts and that is a line. The rangelands versus the wheatbelt, for example, are artificial lines basically where the clearing ended and the rabbit-proof fence was built. The line is more likely to be, and the closest correlation is, that rainfall or, perhaps even better, the difference between semi-arid and arid on certain maps. It looks at genetic divergence and that tends to be where the best place to draw it is. At the moment we are concentrating our regeneration strategies south of that line whereby we can use seeds that are sourced from plantations that are growing in the wheatbelt. The reason we do that is that in our trials and studies we have found that, generally, plantation source seed has a very, very high viability and not only in terms of germination, but establishment in that first year. So, that is why we use it. We have full intention of increasing our regeneration strategy north of that rainfall isohyet, and to meet the requirements for that seed, the FPC has established seed orchards again in the wheatbelt but from seed originally sourced from the rangelands. We are growing that in plantation in the wheatbelt so that when that seed is grown, it will have that same high viability, so then we take it back out to the rangelands and use good quality seed that we can rely on to get even the conservative regeneration requirements we need to fulfil the plant.

Hon LYNN MacLAREN: I see. That explains it. How much does the FPC pay for the seeds which are used for regeneration? How is the price determined and how negotiable is it?

Mr Sawyer: The FPC has its own seed collection agency, and our first picking source is the FPC's own plantations. Then I believe in some cases—this year might be an example—where some frost has damaged some of the seed set of those plantations, so FPC will look further afield through our share-farm plantations for that seed.

Mr Tredinnick: We do collect it from FPC plantations but we also have over the last couple of years been collecting from some plantations where we have share-farm agreements as well, because as part of that agreement, the landowners have an expectation of getting some income from seeds so we are trying to honour those agreements as much as possible in the collection of the seeds. Internally, Ben's division, which is the sandalwood division, is essentially purchasing that seed from our nursery but our nursery and seed centre has the obligation of going and collecting that seed.

Hon LYNN MacLAREN: How do you determine the price? Is it compared to, say, the price of seed overseas? How do you actually figure out what it is worth if you did have to source it from outside FPC?

Mr Sawyer: We believe that it is at market value.

Mr Tredinnick: It is a very skinny market for seeds, so determining that price is a process we go through every year. Even within FPC, there is a bit of debate about what Ben wants to pay for seed and what our guys will say that seed is worth, but the market is very thin for seed at the moment so there is a price which is negotiated with private landowners. Obviously, when we collect that seed from our own plantations, the pricing is internal. But there is a price that is negotiated with

landowners when we collect that from private property. It is probably something I can get you some more information on.

Hon LYNN MacLAREN: That would be great.

The DEPUTY CHAIR: Can I just come back and have a talk about marketing product? You talked about the agarbatti products and religious purposes, and we have talked about extracting oil. What other opportunities are there for future alternative products and what encouragement is there in the market or what capacity is there in the market for a range of other products to be brought in?

Mr Tredinnick: I guess in terms of any products, I assume as part of this process you will be talking to Mt Romance, who are developing a range of end products. There are also some other local producers who have approached us with their plans for what they are proposing to do with soaps and other products which can be produced domestically. They have expressed an interest in getting access to the resource in the future, so we are certainly not discouraging that. But I guess our role as FPC is the marketing of the raw product or the powder produced from the raw product to other customers who have that expertise in developing the end products. We need to make sure we are doing everything we can to encourage that. As you have alluded to, the fact that a large proportion of the wood—pretty much all of the wood—that can be sold domestically is going to one company at the moment could be seen as a barrier to that. That is something we need to review in 2016 when the contract comes up.

Hon COL HOLT: You guys have probably answered this already. With remnant older sandalwood private land—I guess we are talking about mainly ag regions; I understand you guys manage the pastoral region resource—we have heard evidence that there are remnant trees on the sides of roads or remnant bush or even remnant trees on farmlands being harvested and sold. Do you guys have any control of that or any input to that?

Mr Tredinnick: No.

Hon COL HOLT: Is it all purely a DEC-controlled thing or is it just like an open market and away you go?

Mr Tredinnick: Where we see the evidence of it, we report it to DEC. We get photographs sent to us. Someone might drive past a sandalwood tree every day for 20 years and —

Hon COL HOLT: This is on the side of the road or wherever —

Mr Tredinnick: Yes, exactly.

Hon COL HOLT: — which is on crown land.

Mr Tredinnick: That is right. Then it has suddenly disappeared. They will send us photographs of the location and we will pass that information on to DEC.

Hon COL HOLT: But what about on private land? If a guy has a nice patch of bush on his place where he can actually go and take a few trees out and, I guess, sell them to whomever they are that we mysteriously manage to get oil out of, is there any control of that?

Mr Sawyer: Yes; as we mentioned before, just for the green wood, for example, FPC is licensed to harvest 90 per cent of that 1 500 tonnes. That allows DEC to then issue licenses for that 150 remainder of the difference and the same again for dead. As the wood on crown land belongs to the Crown, managed through FPC, if you have got it on your private farm, DEC will issue a licence on inspection that that wood actually is there. Those licences tend to be per annum and on quite a small basis—maybe five or 10 tonnes, depending on the size of the resource—and so that falls under their jurisdiction to monitor.

Hon COL HOLT: On private land?

Mr Sawyer: On private land, yes.

[11.40 am]

Hon COL HOLT: Because of the remnant bush rather than the plantation resource.

Mr Sawyer: It is still native flora even though it is on private land and belongs to the private landowner as I understand, but under the various management of native flora legislation, it still needs to be —

Hon COL HOLT: I am just trying to figure out how some of this illegal wood can get into the market, and I guess that is one way of potentially doing it. The plantation industry has been going for 20-odd years or 17 years or something like that.

Mr Sawyer: From the earliest trial plantations, yes.

Hon COL HOLT: Would any of those logs now be at a size that you would say would be the equivalent size to the allowable limit, which is 127 centimetres or something like that?

Mr Sawyer: Yes, they would be getting —

Hon COL HOLT: Could they harvest an illegal log from the rangelands and pass it off as a plantation log?

Mr Sawyer: Not to anyone who can recognise the difference between the two timbers. The wild sandalwood at that size will be quite dark and there will only be a thin sap layer around the edge effectively; whereas a plantation tree of that size would probably have a very small amount of heart wood in the middle and be all sap.

Hon COL HOLT: But if you are a buyer who wanted it, you could just say, “Beautiful, mate; that’s from your plantation. We can take that.”

Mr Sawyer: My understanding is that is a gap in the legislation—that plantation wood does not fall under these other control and management strategies.

Hon COL HOLT: All right.

The DEPUTY CHAIR: Are there any other gaps in the legislation? I note that it was introduced in 1929 or something, so it has been a long time, I would imagine, since it has been reviewed. Are there any other gaps that you can signal to us that perhaps need to be addressed?

Mr Tredinnick: As I said before, in our view the issue of illegal harvesting of forest products is not new and the measures to tackle it are not new. It has been happening in tropical forests in Asia for many years. It has been happening in South America. The European Union has had a number of people dedicated to trying to clamp down and develop the most appropriate systems and we probably see greatest hope in leveraging off something like the proposed commonwealth legislation where the onus is on someone to prove that it is legal and to have done their due diligence to prove that it is legal. That then puts an obligation on someone like the FPC to have an absolutely watertight chain of custody process to back that up. I think that is the best way forward.

The DEPUTY CHAIR: Thank you for all that information today. We will certainly go through the documents that you have provided to us. There are quite possibly a couple of other questions that we may not have addressed today, but they are of a very technical nature in terms of the responses that you would be providing, so what we may do is send those to you for your response. They mainly require figures, so it is probably more appropriate that you are able to provide a written answer to those anyway. You will receive those in due course. We thank you very much for your attendance here today and your responses to the questions that have been put to you.

Mr Tredinnick: Thank you. We would be happy to appear again if, after discussions you have had during this inquiry, there are issues you want to follow up.

The DEPUTY CHAIR: Thank you.

Hearing concluded at 11.44 am
