



**SUBMISSION TO THE LEGISLATIVE COUNCIL STANDING  
COMMITTEE ON ENVIRONMENTAL AND PUBLIC AFFAIRS IN  
RELATION TO THE SANDALWOOD INDUSTRY IN WA**

**Introduction**

This submission is made on behalf of TFS Corporation Ltd (TFS) in relation to the Inquiry into the Sandalwood Industry in Western Australia which is being conducted by the Environment and Public Affairs Standing Committee of the Legislative Council.

At the outset it is the view of TFS that the maintenance and supervision of the Australian sandalwood industry in WA has evolved in a haphazard manner over recent years, and is now urgently in need of renewal. The aim of a restructure should be to dismantle the heavily regulated sandalwood market, resulting in a much more transparent and open market-based process, while maintaining the viability and sustainability of this environmentally precious and economically valuable resource.

Whilst each term of reference will be dealt with in turn it is first necessary to provide some background to TFS and an outline of current state of the industry in WA.

**1. Background - TFS**

TFS is a public listed Australian Company which was founded in Western Australia, with majority control residing in Western Australians, and is the biggest exporter in terms of Australian Sandalwood (*santalum spicatum*) oil in WA. TFS was in the Forbes top 200 Companies under \$1 billion, for the Asian region in 2009. It has attracted institutional and foreign investment in order to expand its plantations of Indian Sandalwood (*santalum album*) in the East Kimberley.

Whilst it started under the Managed Investment Scheme (MIS) TFS has moved away from this and is now non reliant on MIS with 90% of its revenue derived from non MIS sources.

**1.1 Operations**

TFS has Indian sandalwood holdings in the East Kimberley and a processing plant at Mt Romance (MRA) Albany in the Great Southern, which it purchased in 2008.

**Indian Sandalwood**

TFS believes that Indian Sandalwood and Australian Sandalwood can co-exist and it would point to a Management Plan by the former CALM in 1991 which recommended that the sandalwood market in WA be maintained by the establishment of Indian Sandalwood

plantations in the Ord River Irrigated Area (ORIA). The plantations in the East Kimberley are located in part of the ORIA and a separate property at Kingston Rest between Kununurra and Wyndham. The most mature of the trees will be harvested in 2013 and the plantation is the largest in the world of Indian sandalwood. Indian Sandalwood is worth around ten times the value of Australian Sandalwood and is not subject to the regulation that is imposed on the harvest of Australian Sandalwood. Indian Sandalwood also enjoys substantially higher international demand from a diverse range of global industries in an environment where there is short supply.

Working with the FPC, TFS conducted a destructive harvest of 90 Indian Sandalwood trees from four trial plots within the ORIA. The trees were selected on a random basis to test for both high and poor quality samples to assist in the development of predictive growth models.

Interim results obtained in February 2011 indicated that the trees had returned material oil yield and quality of oil, with the full results now completed and confirmed by an independent audit from the University of Western Australia.

The results found that Indian Sandalwood grown under plantation conditions in the ORIA produced commercial yields of wood and oil. Importantly, the trial proved a high correlation between the size of trees and heartwood/oil formation.

The results of this research have been made public and TFS believes that R&D conducted by the State has been beneficial to the industry as a whole.

In this way TFS has relied on a fledgling government based trial at the Frank Wise Centre in Kununurra and turned it into a world class and unique operation which is producing high quality premium oil with high yields. This has involved a great emphasis on R&D as well as value adding.

### **Australian Sandalwood**

At Mt Romance Australian Sandalwood (sandalwood) is processed, and it is exported in a variety of forms of wood, oil and by-products. MRA is the largest exporter of sandalwood Oil in the world. Sandalwood found on Crown Land is harvested and sold through the Forest Products Commission and MRA has a contract with FPC for the supply of 550 tonnes pa until 2016. Further detail in relation to this contract is outlined at 1.4. Apart from this, MRA purchases wood from private suppliers such as Aboriginal Communities who have DEC licenses to harvest and sell sandalwood.

Apart from providing business opportunities for Aboriginal Communities in the Eastern Goldfields, TFS is also one of the largest private employers in both Kununurra and Albany.

Last year TFS reported on the sustainable economic benefits of the long term employment opportunities that it provides in the remote Kimberley region and in Albany, Western Australia.

In FY2012 the geographic expansion of TFS has created new long term sustainable employment opportunities in the remote communities where it is now based, which extend to the Katherine and Douglas Daly regions of the Northern Territory and the Burdekin region of Queensland as well as WA.

TFS now employs a team of over 130 permanent employees which are mainly located at Albany, Perth and the East Kimberley.

TFS also has a large seasonal casual work force of over 200 casual employees dependent on the short term operational needs of the company. With the work completed by contractors engaged by TFS to complete specific tasks, and its expansion, TFS has contributed to the sustainability of local economies and stimulated allied industries including local businesses, contract operations and services.

## **1.2 TFS – Corporate Social Responsibility**

### **Indigenous**

Since 2005 Mt Romance, Cosmetic Company AVEDA and Indigenous members of the Songman Circle of Wisdom in the South West have joined to create an indigenous natural plant origin protocol. Under the programme sustainable business partnerships are formed whereby Indigenous businesses obtain from the Government licences to collect sandalwood. A royalty from the product is then paid to them as a result of a premium being obtained from customers due to indigenous certification.

TFS is also a proud foundation sponsor of the Clontarf East Kimberley Football Academy which is part of the Gerard Neesham programme in Perth. TFS has recently funded a feasibility study by Notre Dame University (NDU) for a programme involving tertiary and vocational education for on-country management. Although this would be available for the broader community it particularly would cater for indigenous students. The NDU wants to progress this and TFS is looking to partner this as it would improve management of natural resources in the Kimberley. TFS has also been selected by Miriuwung Gajerrong Corporation to enter into an MOU to assist it with land management in Ord 2.

As mentioned TFS has also worked with Aboriginal Communities in the Eastern Goldfields in a number of areas. In particular those at Coonana and Kutkabubba have involved TFS in trying to obtain licenses, business development and the ability to access wood which has been left behind after illegal harvesting.

### **Environmental**

TFS is conscious of the environment in which it works. Water is a particularly precious commodity and it has won two awards relating to conservation of water.

In the Mount Romance factory located in Albany the factory cut its water needs from 32,028 kilolitres in 2006 to just 11,908 kilolitres in 2010, a saving of more than 60 per cent using technological ingenuity and investment in infrastructure. This was done by installing a \$0.5m water recycling system.

This improvement resulted in Mount Romance being awarded the Platinum Award by Environment Minister Bill Marmion for water saving under Watercorp's water conservation programme. Mount Romance was one of only twelve companies that received a platinum award out of 485 company's state wide.

The Mount Romance operations traditionally use a large amount of water because steam is a key ingredient in the factories core process of refining sandalwood to produce oil and manufacture a wide range of products onsite. The water savings were achieved using a Water Efficiency Management Plan which included audits and identification of potential water savings. Mount Romance's success in saving water can be attributed mainly to improvements and innovations in recycling.

Through continuing improvements to its recycling procedures, Mt Romance now recycles 6.8 million litres of water per year.

This initiative followed on from an Award for the first recycling of irrigation water in the ORIA. This was awarded by former Minister John Kobelke at the Inaugural Water Awards in 2006. At the time it was recognized as leading the way in water recycling in the Kimberley.

During the course of its operations TFS has also planted over 13 million trees which includes sandalwood and host trees.

### **Tourism**

Whilst tourism is not a core business TFS, has recently won two Silver Awards for WA Tourism for its outlets in Broome and Kununurra and under the previous owner MRA won the Small Business Exporter of the year award. It has also won similar awards for its outlet at MRA. These outlets are used not only for the sale of its WA produced cosmetics but also for the promotion of the industry and the region. As well as this TFS has two entrants as finalists in the 2012 TWA Awards.

### **1.3 Illegal Dealing in Sandalwood and Action Taken by TFS to Combat This**

The illegal dealing in sandalwood has been a concern for TFS for some time. Over the last three years it has worked closely with authorities (this has included representations to Government, DEC, FPC and Customs and Border Protection) to combat the illegal dealing with sandalwood.

As the biggest legitimate dealer in sandalwood TFS has not only a commercial interest but an even wider community interest in the clamp down on this illegal trade.

It not only damages a natural resource but can also damage our international reputation as good conservationists of our forests and in turn could affect our overseas markets.

MRA has experienced a number of attempts to sell illegal wood and accordingly has referred these to DEC and the WA Police. TFS has been frustrated at the lack of progress in relation to the reforms needed which are outlined at 2.5.

#### **1.4 MRA's Contract with FPC**

In 1998 previous owners of MRA entered into a contract for the supply of sandalwood from what was then CALM. It must be remembered that when the initial MRA contract was negotiated with the then CALM, the Asian Financial Crisis had erupted and the overseas market for Australian sandalwood had been severely impacted. In addition the then owner of the Albany operations, an Indian essential oil producer, had failed and the WA State Government was faced with the loss of some 40 jobs in an already economically depressed region. This was in addition to the write off of considerable financial assistance provided in establishing the \$6m Albany facility.

At the time of negotiating the contract the terms for the purchase of sandalwood reflected prevailing prices. MRA was obligated through another agreement with the State government to recommence the Albany operations to convert the facility for processing sandalwood oil and maintain employment over the next 5 years with the goal of bringing it back to previous levels of employment. These obligations were achieved to the satisfaction of the State.

It must also be remembered that the extraction and processing of the oil had not been undertaken for some time in WA and little knowledge existed of the likely oil yield and specification, oil bearing parts of the tree, and optimum processing technology.

As this knowledge developed MRA and FPC refined the base contract through several difficult negotiations which saw an oil bonus payable to FPC come and go. As well as this the processing plant at MRA changed from solvent to steam distillation at considerable cost. There were also changes in the specification and mix of wood supplies.

The initial MRA investment, before TFS, was \$3.0m on top of the \$6.0m previously invested in the plant and it took 3 years of losses before MRA achieved break even. Throughout the last 10 years considerable further investment has been made in expanding the plant, including new facilities for milling private wood, quality control, water recycling and \$1.5m on a new waste wood fired boiler. This is separate and apart from the \$28m paid by TFS for MRA which although it had a contract for supply until 2016 it was of diminishing value.

From July 2011, the MRA base contract is for the supply of only 550 tonnes, at this time pricing was amended to mirror price movements in world market prices, significantly increasing the cost of sandalwood to MRA. Future pricing reduces in subsidy annually through to 2015. This amendment represents a substantial increase in the pre 2011 MRA supply price and coupled with the removal of the FPC obligation to buy spent charge has seen MRA invest in excess of

\$400k in infrastructure (as unveiled by Colin Barnett in 2011) to value add and build a PSC market in China for enhanced spent charge by-product. The amended pricing arrangements are viable because of the work carried out by MRA in developing demand and use of Australian sandalwood since MRA's inception.

Clearly MRA has played and will continue to play a major role in the further development and value accretion of Australian sandalwood. As an example MRA commits on average \$400K per annum in market development alone. There are also of course indirect costs which are associated with this. Any analysis of the contract should be made in light of the history of the contract and the investment that MRA has made in order to sustain the industry. This is quite apart from the benefits brought to region by way of business development (which is dealt with in more detail at 1.5) and employment.

TFS totally rejects any assertion that the FPC/MRA contract subsidizes MRA to the tune of \$5m pa. Apart from considerations already mentioned the average sale price as mentioned by FPC in evidence to the Committee is \$6,400 per tonne. When this is compared to the average FPC sale price to MRA the position is very different. The average price that FPC receives from MRA is \$10,000 per tonne.

## **1.5 Market Development/Research and Development**

One of the greatest achievements of TFS in recent years has been in the area of market development. These could be summarized under the following convenient headings:

### **a) Pharmaceutical (OTC)**

MRA has also been working with trials in the USA involving the Therapeutic Goods approval process for the use of its Australian oil in health / pharmaceutical application of up to 14 separate products.

TFS is about to add substantial value through processes in WA. An example of this in the production of oil to be sold into the pharmaceutical over the counter (OTC) market in the USA. TFS has spent over \$2m in the last two years to develop this demand. No one else in WA has done this.

The most compelling case of value-adding is the joint venture company Santalis formed with American researchers Viroxis. Santalis draws on the world-class technical expertise of Viroxis, allowing us to identify, isolate and use parts of the Sandalwood tree in an evidence-based consumer product range.

The focus of the company is to maximize the value created from various parts of the tree through the inclusion of Sandalwood extracts on international monographs that recognize therapeutic properties.

The Viroxis team has conducted extensive research into the properties of sandalwood oil and has assisted TFS in gaining a better understanding of the activity and potential applications of Sandalwood extracts. Rigorous testing of these extracts (that include sandalwood powders, oils and seed oil) will assist us in identifying active components and strengthen the prices demand market for sandalwood.

This delivers 2 main benefits:

- a) identification of value adding in other parts of the tree and
- b) providing intellectual property on the uses of sandalwood to support product development at both a raw material and retail level.

Already new products have been developed including sandalwood nut oil. These have cosmetic and potentially therapeutic properties, a discovery that could create significant market potential. Research conducted by Viroxis has also led to the development of a proprietary therapeutic grade of sandalwood oil known as alberputenoids. The development of this proprietary product helps to safeguard the Australian grown natural essential oil against international competitors and works to establish credibility for the natural oil.

Santalís has developed a range of skincare products using globally harmonized formulas. The acne and anti-aging lines use a selection of Sandalwood ingredients (wood, nut and oil) and leverage the Australian source in marketing and promotion. These products will be launched in the USA in November with an Australian and Asian launch scheduled for 2013. A number of line extensions have been developed for release, subject to demand for earlier launches.

Real value adding instead of powdering wood to just burn as incense and mosquito coils.

#### **b) Carving**

TFS has engaged with the carving market in China and anticipates a growing demand for sandalwood in that market. This will involve a much greater value than incense.

#### **c) Perfumes and Cosmetics**

MRA has, from its inception, pioneered new markets for Australian sandalwood oil as a distinct branded ingredient in perfumes in Europe, North America and in attars in the Middle East – a totally new market that took 3 years to break into a further 3 years before annual demand equated to annual production. This required the development of new perfume formulations, regulatory approvals and in some cases the reformulation of existing perfumes and considerable investment in marketing.

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#### **d) China**

A useful analogy for our market in China is to compare the history of the export of jarrah and sandalwood from WA.

In the 19<sup>th</sup> century WA was exporting jarrah for railway sleepers in the UK and sandalwood to China for incense. In 2012 WA is still exporting sandalwood to China for incense with little change in relative value, whilst jarrah has long since been recognized for its exceptional value to the furniture trade.

As supplies have diminished the traditional industry has not been educated to a timely transition towards alternative natural incense supplies. Although TFS has sought to respond to this situation there has not been a corresponding effort from WA.

For example TFS has introduced into China alternative incense products that are natural and that have a sustainable future. These are the spent charge products, specifically Sandalwood Chips (PSC) and Premium Preserved Sandalwood Chips (PPSC). Spent charge is Sandalwood Chips from which most of the oil has been extracted through the distillation process.

TFS has over the last 3 years taken a long view of the Chinese industry by developing and introducing TFS incense products such as PSC and PPSC. These products form a base from which high quality incense can be produced with the addition of only a small percentage of wood.

Any future strategy adopted by the State needs to accommodate this change in the market rather than continuing with more of the same.

#### **e) India**

As part of the company's export strategy into India, TFS sees the potential for growth of allied industries in India such as handicrafts, ayurvedics, religious products and food stuffs. We believe this could provide real economic benefits to both our countries and those regions in India involved in the trade of Sandalwood.

TFS has worked hard to build a good working relationship with Indian companies and India is the destination of choice for TFS to build these industries. The current restriction on the importation of non processed sandalwood into India is a major impediment in the development of this strategy, and employment opportunities in India, forcing us to assess the feasibility of processing in neighboring countries. We also believe that part and parcel to the trade, is the continuation of related cultural practices in India.

Western Australia has a long history of Australian Sandalwood export, with the wood representing one of the State's earliest and most significant trading commodities. Through its subsidiary Mt Romance, TFS currently exports Sandalwood oil to the international market from native trees harvested in the South of Western Australia. India is now a major trading partner for Mt Romance.



Quite apart from the above are duties imposed on the importation of sandalwood to India. TFS is keen that this be addressed in current Free Trade talks between Australia and India and is working with DFAT in this regard as well as the Indian High Commissioner in Australia.

While TFS has worked hard to create relationships and build a footprint within India, barriers to entry remain a key issue in developing trade. Two key issues we believe need addressing:

1. Duty on Sandalwood oil and wood products imported from Australia and;
2. Current restrictions on the import of wood from Australia

The duties applied to Sandalwood Oil and Sandalwood Chips and Dust (listed below) are currently prohibitive and we believe inhibit the potential for large scale trade to develop. Under a Free Trade Agreement we would seek for these duties to be minimized.

	HS Code	Basic Duty	CVD	SPL. CVD	Total Duty
Sandalwood Oil	33012937	20%	10%	4%	34%
Sandalwood Chips and Dust	12119050	15%		4%	19%
HS Code – Harmonized Commodity Description and Coding System					
CVD – Countervailing Duty					
SPL.CVD – Special CVD					

As can be seen the rates of duty are substantial and provide a significant barrier to the development of exports from Australia to India.

#### **Current restrictions on the import of wood**

Unprocessed Sandalwood (e.g. in log form) cannot be imported into India. Approximately 50% of the demand for Sandalwood comes from the wood market for religious and cultural applications.

Listed below are the references by the Indian Department of Trade in relation to the restriction on the importations of wood.

4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared		
Sandalwood	4403992	31 Jul 2009	Restricted – Import subject to Licensing Note 2 of Chapter.
		6 Feb 2008	Restricted – Import subject to Licensing Note 2 of Chapter.
		7 Apr 2006	Restricted – Import subject to Licensing Note 2 of Chapter.

### 3. 3. Import Licensing

Note No. (2) will be added at the end of Chapter 44 and will be read as follows:

“Import of Sandalwood will be subject to the conditions laid down in Policy Circular No. 1 (RE-06) / 2004-09 dated 7.4.2006.”

TFS is seeking that these instruments be removed on the basis that it impedes an opportunity not only for export from Australia to India but also growing an industry in India. These initiatives can also be achieved without detriment to any local economy.

## **2. Current State of the Sandalwood Industry in Western Australia**

The harvesting and sale of sandalwood in WA is regulated by the State Government.

There are five key pieces of relevant legislation, the main ones being the Sandalwood Act, the Conservation and Land Management Act and the Wildlife Conservation Act. At annexure “ A” we have outlined a schematic layout of the structure of the industry.

### **2.1 Over Regulation**

As a consequence of existing legislation there are three principal Ministers namely the Minister for the Environment (DEC), the Minister for Agriculture (FPC) and the Minister for Mines (Mining Tenements) who have varying degrees of jurisdiction. Licences for harvesting sandalwood on Crown land are issued by DEC to FPC, and on private land by DEC to successful applicants with a right over the land to be harvested.

The amount of sandalwood that can be harvested is fixed by the Governor in Council, pursuant to the Sandalwood Act. The current quota is set at 1500 tonnes for greenwood and 1500 tonnes for deadwood per annum, pursuant to the Sandalwood (Limitation of Removal of Sandalwood) Order 1996.

Currently the handling of the quota is administratively divided, by a private arrangement between Departments, so that 90% is handled by FPC for sandalwood on Crown land, and 10%

by DEC for sandalwood on private or alienated Crown land. The diagram at attachment "A" provides a visual outline of the current structure of the WA Australian Sandalwood Industry.

In the absence of the FPC the industry could operate on a free market basis. This would then result in licensed harvesters/operators being able to supply directly to the market. The contracts that FPC has with WESCORP (which expires in 2014) and MRA (which expires in 2016) would also have to be accommodated in any transition. TFS believes the deregulation and transition to a free market would increase the returns to the state by at least \$10m per annum.

## **2.2 Mining Tenements**

The issue of sandalwood found on mining tenements is another area of complex regulation. From its own experience TFS has witnessed sandalwood being bulldozed into the ground when clearing has taken place on mining tenements. This results in the wasting of a resource without any commercial return to anyone. TFS estimates that a minimum of 200 tonnes of sandalwood is lost each year because of this. The regulatory regime in this regard involves FPC, DEC and Department of Mines. The miners who are not compelled to report sandalwood on land to be cleared have no interest in harvesting the wood as they do not receive any benefit. What is more, the regulatory requirements also slow down their operations.

Furthermore FPC's harvesters have complained that it is not worth their while harvesting the wood due to low return for effort.

A possible course of action could be to allow the miner to collect the sandalwood or allow a local Aboriginal Community to obtain a license to salvage sandalwood.

## **2.3 Pastoralists and Aboriginal Groups**

TFS has dealt with pastoralists and Aboriginal Groups who are also frustrated by regulations which prohibit them from dealing directly with the market place. This course relates to the harvest of sandalwood from land which they occupy but which is classed as unalienated Crown Land. In such cases any harvest and sale of sandalwood is controlled by the FPC. These groups are often subject to FPC Contractors harvesting on land that they occupy. Where they are successful in obtaining a license to harvest (deadwood only) they are limited in the return they receive by only being able to sell the wood to the FPC.

## **2.4 Potential Conflict of Interest Between WESCORP and FPC**

Whilst TFS would agree with a comment made by WESCORP that illegal wood places a downward pressure on the price of sandalwood. TFS would however make the point that WESCORP itself supplied over 500 tonnes of Pacific greenwood independently to the same customers to which it sells State sandalwood. This in itself would place a downward pressure on prices for State owned wood. TFS sees this also as a potential conflict of interest between the agent WESCORP and its principal FPC (The State).

## **2.5 Illegal Dealing and What Should Be Done**

For sometime an illegal industry has operated with respect to sandalwood. FPC has estimated that 200 tonnes p.a was the subject of this however estimates by FPC as a result of recent seizures would place this is at a much higher figure. There are three aspects which need consideration by the Government:

### **1. Lack of Powers.**

As we understand it any prosecution by DEC involves the normal standard of proof in relation to the sandalwood in question. I.e. A person could have illegal wood and wood legally obtained. Each item has to be proved without any "averment" provisions as used by agencies such as Customs and Border Protection.

### **2. Commonwealth /State Co-ordination.**

Most illegally harvested wood is exported as wood and oil, the market is overseas. Unfortunately Federal jurisdiction is only triggered if the wood is unprocessed. In most cases however the sandalwood illegally exported would be processed in the form of pieces, chips or oil. Accordingly this gap needs to be filled and if any gazettal by the State is needed for Customs to act it should be done. A good example of where State and Commonwealth powers coincide is the fight against illegal trafficking in fauna. That's should be replicated for flora.

### **3. Penalties**

The maximum penalty of \$2,000 is grossly inadequate when the value of sandalwood is considered. This needs to be substantially increased.

### **3. TERMS OF REFERENCE**

#### **3.1 “Regulation and Management of the Sales of Wild Sandalwood”**

Whilst any freeing up of the market would be subject to the Wescorp Agency contract which expires in 2014 and the FPC/MRA contract which expires in 2016 TFS is of the view that the current system should be streamlined.

To this end there should be only one Government entity dealing with the market place and prices should be at market value. DEC could assume this role in 2014 and replace Wescorp when its contract expires in 2014. Upon the expiry of the FPC/MRA contract in 2016 the transition would be complete with DEC covering the field. By implication this would mean the staged withdrawal of FPC from the industry. Any sale could be conducted quarterly. At this point the levy mentioned in Rec 9 could be implemented.

#### **Recommendation One**

TFS recommends that FPC (or, if FPC is abolished, DEC) sells its sandalwood on a transparent and free market in which all contracting parties on the marketplace have equal access to sandalwood at a fair market price.

### 3.2 "The Regulation and Management of the Harvesting of Wild Sandalwood"

From extensive observation in regional WA it has come to the attention of TFS that there are substantial amounts of dead sandalwood which is simply going to waste. The State quota of 1500t of deadwood is not reached as restricting its sale to the FPC causes it to be an uneconomical product to collect. Like greenwood the quota for deadwood is capped however there does not appear to be any logic for this. The deadwood simply rots on the ground with nil value returned. As well as this there would not be any environmental impact. TFS believes there would be industry support for releasing this and allowing for deadwood to be collected and sold to the open market albeit under licence.

TFS is of the view that any greenwood harvested should only be by licensed harvesters and only on a sustainable basis. As previously stated this is a precious commodity and there should remain a cap on the harvest. Both licensing and the cap should be governed by DEC.

#### Recommendation Two

##### DEADWOOD

Subject to proper regulation, there should not be a limit on the quantity of deadwood harvesting, so that there is a real increase in the amount of wood available to be collected and sold by farmers, private landowners and Aboriginal people.

Licences to harvest should be granted to individuals or private entities, stipulating the areas where harvesting would be allowed.

#### Recommendation Three

##### GREENWOOD

In order to ensure the ongoing greenwood viability of the sector, DEC should remain responsible for setting a minimum size and quota of greenwood to protect the future of the resource but should then allow harvesting of the remainder. Any limits set should be at an environmentally sustainable level with more investigation of this required.

#### **Recommendation Four**

The 90/10 FPC/Private license split of quota has no identifiable policy or administrative rationale. Until the market is freed up it should therefore be significantly rebalanced so that pastoralists and indigenous communities are able to harvest more wood on private or alienated land and the wood could then be sold on a free and open market.

**It is estimated that a minimum of 200 tonnes of sandalwood on mining tenements is not harvested, but is instead bulldozed into the ground, because:**

- **it is not in the interests of the miners to harvest, as they get no financial benefit and it slows up their operations, and**
- **The money rate on offer to salvage contractors is below market levels, the economics leave no incentive to collect it.**

**Opening up this sector would provide significant opportunities for indigenous communities to earn income.**

#### **Recommendation Five**

##### **SALVAGE ON MINING TENEMENTS**

The WA Government should free up and insist on the harvesting of sandalwood located on Mining Tenements.

**Evidence has been given of large scale illegal harvesting in sandalwood. From experience TFS has witnessed numerous instances where poachers have left behind part of the tree. Although regrettably this has destroyed a tree, what is left behind is a decaying resource.**

#### **Recommendation Six**

Provision should be made to allow the collection of any deadwood remaining from any illegal harvesting. The collection and sale could be included in any restructured arrangements for the industry.

### **3.3 The Environment Sustainability of Wild Sandalwood**

**As previously stated TFS is of the view that any harvesting of sandalwood should be on an environmentally sustainable basis. Part of this requires some amendments in relation to the illegal dealing in sandalwood. Appropriate measures have been previously outlined and in the opinion of TFS this would require a great deal of work or resources.**

#### **Recommendation Seven**

The WA Government should increase the powers of investigation by DEC into illegal dealing of sandalwood and penalties should also be increased. Any administration on legal amendments necessary for Australian Customs and Border Protection to assist in stopping illegal export of sandalwood and it's by products including oil should also be made.



### 3.4 “Any Other Relevant Matters ”

A crucial part of any review should be an emphasis on value adding. TFS leads the State in developing markets and adding value. This should be a focus of any State Government and TFS would support any appropriate measures in this regard.

#### **Recommendation Eight**

WA Govt as a matter of policy should be committed to value adding.

From public documents it would appear that FPC makes a pre tax profit of \$2.6m pa from its sandalwood operation. In order to address any loss of revenue bought about by allowing sandalwood harvested on UCL to be sold on the open market a levy could be placed on the tonnage sold from Crown and private land.

#### **Recommendation Nine**

In order to address a shortfall in revenue the WA Government could impose a levy on sandalwood sold from Crown and Private land

## 4. **CONCLUSION**

TFS extends to the Committee an open invitation to visit any of its operations in WA and furthermore requests the opportunity to address the Committee on these and any other matters that the Committee might think relevant. TFS also requests this opportunity to address some inaccuracies contained in some submissions. The Sandalwood Industry in WA is in need of overhaul and TFS welcomes this Inquiry.

**Diagram  
Western Australian Sandalwood Industry Structure**

The amount of sandalwood that may be harvested in Western Australia (WA) has been fixed by an ordinance of the Governor in Council in 1996 (pursuant to Section 3 of the Sandalwood Act 1925). The amount is 1,500 tonnes per annum of deadwood and 1,500 tonnes per annum of green wood.

The total amount of sandalwood available to be harvested is currently administratively divided. 90% of the sandalwood quota is allocated to Crown land and is handled through FPC, with the remaining 10% being reserved for sandalwood harvested from private land (DEC).

**FOREST PRODUCTS COMMISSION (FPC)**  
Minister for Agriculture

**DEPARTMENT OF ENVIRONMENT AND CONSERVATION (DEC)**  
Minister for the Environment

90% of total amount sandalwood available to be harvested in WA is taken from Crown land

10% of total amount of sandalwood available to be harvested in WA is taken from freehold or alienated land

Contracts to harvest sandalwood are put out to tender by FPC .

Licences to harvest sandalwood are issued by DEC pursuant to Section 3 of the Sandalwood Act

Wood harvested must be sold by FPC and harvesters are paid a price which is fixed by FPC. This price is approximately 80% below the price of wood currently paid by TFS on the open market.

Wood collected by harvesters is sold by the harvesters on an open market. Harvesters include private landholders and Aboriginal communities.

FPC has an agency contract with Wescorp to process and sell 90% of FPC's annual available sandalwood. This contract expires in June 2014.

Mt Romance Australia has a contract with FPC (until 2016) pursuant to which Wescorp supplies Mount Romance with 550 tonnes of processed sandalwood per annum

TFS understand that Wescorp sells the remainder of the sandalwood to the Asian market