



The Hon Terry Redman MLA
Minister for Agriculture and Food; Forestry; Housing

Min Ref: 39-17682
Your Ref: Petition 152

Hon Brian Ellis MLC
Chair
Standing Committee on Environment
and Public Affairs
C/- Parliament House
Harvest Terrace
PERTH WA 6000


Dear Mr Ellis

Thank you for your letter of 28 May 2012 and subsequent letters from you and the Committee's Deputy Chair dated 13 June and 19 June 2012 respectively, regarding Petition number 152 tabled by Hon Wendy Duncan in the Legislative Council on 20 March 2012.

The following information is provided in response to the issues raised. I understand that the Minister for Environment has made a separate submission that addresses issues associated with licensing, legislative frameworks, sustainability and illegal harvesting. This correspondence does not seek to duplicate that information.

Sandalwood harvesting operations are carried out in accordance with the *Forest Products Act 2000* and the *Sandalwood Act 1929*. The *Sandalwood Act 1929* is administered by the Minister for Environment and with Department of Environment and Conservation (DEC) oversight, the Forest Products Commission (FPC) is able to harvest green and dead sandalwood from Crown Land.

FPC undertakes harvesting of a range of native and plantation forest products through contractors, with FPC staff supervising the operations undertaken by harvesting contractors and monitoring to ensure the annual harvest is within contractual limits.

All woody components of the sandalwood tree can be utilised, from the roots to finest branches. The oils that give sandalwood its value are contained in the heartwood and only green logs, butts and roots are suitable for oil distillation. The remainder, consisting of dead wood and smaller diameter green wood, is mainly used to manufacture incense and religious products for the agarbatti industry.

Agarbatti is at the centre of many Asian traditional cultures, with recipes passed through generations; the market for agarbatti in Australia is small and is effectively limited to mosquito repellent. Agarbatti products can be made using the low grade sandalwood, provided that material is blended with a proportion of high grade material to achieve sufficient value for the agarbatti market.

FPC therefore sells most of the high grade sandalwood into the domestic oil distillation market, but also ensures that a significant proportion is used to sell the lower grade sandalwood into the agarbatti market. The marketing of agarbatti is specialised and FPC employs an agent – Wescorp - to produce products for the agarbatti market and manage Asian sales for those products. I invite members of the Standing Committee to visit the Wescorp facility in Canning Vale and gain an appreciation of what is required to fully market the lower grade sandalwood.

Wescorp also prepare and deliver the high grade sandalwood that is sold to Mt Romance Australia (MRA), who use it to produce sandalwood oil. The long term contract of sale that FPC has with MRA obliges FPC to direct 550 tonnes of high grade wood into the domestic (oil distillation) market even though the price paid for this product is now below what it would fetch on the international market. The MRA contract expires in 2016.

A range of parties have suggested to the Standing Committee that the current arrangements for harvesting and selling sandalwood from Crown land are somehow corrupt and/or inefficient and this is the reason they are unable to purchase the high grade wood. While the proposition that FPC should divert most if not all high grade sandalwood into the domestic oil market might seem attractive, it would lead to low grade sandalwood being wasted rather than generating valuable jobs and export income. Notwithstanding current arrangements, FPC will consider options for marketing sandalwood when current contracts expire.

The submission to the Standing Committee from Austoils repeated a claim that is often made about FPC by opponents of harvesting: that in undertaking its activities, FPC generates massive losses. FPC's accounts - audited by the Office of the Auditor General – show that FPC generates an operating profit from each of its three operating segments (sandalwood, plantations and native forests).

Most of FPC's sandalwood harvesting occurs on station country. A pastoral lease grants grazing rights, not ownership of forest products. Section 60 (1) of the *Forest Products Act 2000* specifically envisages FPC contractors taking forest products on land which is subject to a pastoral lease. It is not my intention to advocate pastoral entitlement to the sandalwood resource on leases.

Notwithstanding the above, pastoral lessees have taken the opportunity to supplement their pastoral income through sandalwood harvesting. I am advised by the FPC that 20 of the 31 production contracts currently in place are held by pastoralists.

A mining tenement may permit the holder to clear vegetation on Crown Land, but section 60 (1) of the *Forest Products Act 2000* specifically envisages FPC contractors taking forest products on land which is subject to a mining tenement. It is FPC's role to sell any forest products that are generated as a result of mining tenement clearing and because sandalwood is extremely valuable, the Forest Products Commission is able to arrange for the salvage of relatively small amounts of sandalwood, provided it is notified of or otherwise learns about the intention to clear vegetation that includes sandalwood.

In March 2012, I received a letter from Mr John Bowler, MLA, alleging FPC improperly awarded an employee a sandalwood salvage contract. I am advised that FPC is investigating the circumstances around a contract being awarded to a past employee and this is being undertaken with oversight from the Public Sector Commission.

Since 2009 Mr Keith Mader, a pastoralist on Walling Rock Station, has made numerous allegations of corruption and misconduct against the FPC and its contractors.

I am advised that Mr Mader previously held a contract with FPC for the harvesting of sandalwood, but in 2009 he lost this contract as a result of failing to maintain a contractual obligation despite repeated requests by FPC. I am also advised that Mr Mader applied for but was not awarded another harvesting contract through a tender process that was overseen by an independent probity auditor. Mr Mader has maintained that FPC treated him unfairly and alleged that FPC's actions were corrupt.

Mr Mader clearly remains aggrieved, but I attach a copy of correspondence to FPC from the Ombudsman's office (with their permission) that clearly shows that the Ombudsman investigated Mr Mader's complaints and concluded that they were not sustained. Mr Mader also raised his allegations of FPC misconduct with the Corruption and Crime Commission and I enclose a copy (with their permission) of a letter from the Commission to FPC advising in November 2009 that they did not intend to take further action.

I respectfully request the Committee to reconsider the appropriateness of its request for a blow by blow account of Mr Mader's accusations against and responses from FPC and other parties.

I have attached information provided by FPC that elaborates on environmental management, sandalwood regeneration and sandalwood harvesting contracts.

I trust all of this information is satisfactory. Please let me know if the Standing Committee requires additional information or clarification of any other information supplied.

Yours sincerely



TERRY REDMAN
MINISTER FOR FORESTRY

Attachment 1: Correspondence from Ombudsman's office to FPC

Attachment 2: Corruption and Crime Commission letter to FPC

Attachment 3: Information provided by FPC

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Attachment 3 – Information provided by Forest Products Commission

Environmental Management

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

Sandalwood harvesting has a low environmental impact. Contractors make use of natural openings in the vegetation wherever possible and operations generally require only a single pass over any soil area. Roads and campsites are subject to the greatest level of disturbance and these represent less than 1% of the operational area. Assessments for rare flora and fauna, and threatened ecological communities are completed prior to construction of roads and campsites, and rehabilitation is completed at the conclusion of operations. The FPC is authorised to undertake these works with exemption under Schedule 6 of the *Environmental Protection Act 1986*.

Contractors comply with the legislative requirement to only harvest live trees with a stem diameter greater than 127 mm. FPC also requires that additional seed producing trees are retained in locations where distribution is sparse.

Sandalwood Regeneration

Although harvest levels are not the responsibility of FPC, detailed resource modelling is undertaken by FPC for planning purposes. This modelling has been peer reviewed by the Department of Environment and Conservation (DEC) and an Independent expert. The modelling has identified that the greatest threat to future stock levels is the exaggerated mortality of trees and lack of natural regeneration associated with landscape alteration post European settlement.

To address the lack of natural regeneration, FPC introduced sandalwood regeneration practices to the industry in 2001 with harvesting contractors required to "seed as they go". In 2007 FPC began a sandalwood regeneration research program named "Operation Woylie" to further improve sandalwood regeneration associated with harvesting. This research identified that soil preparation, seed collection and seed treatment were all important to increase germination and establishment.

In 2011 FPC changed its seeding practices. In some locations harvesting contractors continue to seed as they go, but the mainstay of FPC's sandalwood regeneration is a dedicated regeneration program involving the advanced techniques developed through Operation Woylie. The new program includes a strategic plan to work through historic and current harvest areas where factors such as low grazing pressure are assessed to be conducive to sandalwood establishment. Operation Woylie is ongoing and demonstrates FPC's commitment to continuous improvement of sandalwood regeneration for the benefit to the species and industry.

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Sandalwood harvesting contracts

Sandalwood harvesting contracts are awarded through both private treaties and as a result of competitive tender processes. The *Forest Products Act 2000* allows FPC to negotiate contracts by private treaty and almost half of the contracts are a product of private treaty negotiations. Of the private treaty contracts 80 per cent are with pastoral lessees.

Where contracts are awarded by tender, this follows assessment of tender submissions against evaluation criteria. The process is consistent with State Supply Commission policy. Tenderers must demonstrate value for money through description of organisational capacity to complete contract works, skills and experience of personnel, understanding of sandalwood harvesting methodology, safety systems and commitment to a buy local policy. This often means that the cheapest tender is not successful.