



Hon Brian Ellis,
Chairman,
Standing Committee on Environment and Public Affairs
Parliament House,
Perth, WA. 6000

Dear Brian,

RE: Petition number 152 – Request for Royal Commission into the Forest Products Commission.....

Submission by Stephen Fry regarding the petition.

I am writing with the intent of putting information before the Committee, which may have relevance in your deliberations on the petition mentioned above.

I am a resident of Narembeen 300 kilometres east of Perth.
I live on 128 hectares amongst farmland, and have planted 100 hectares of Sandalwood on my farm, for future income in retirement.
We are about to embark on a marketing business selling Sandalwood seed to the edible nut market. Alongside this we wish to market a Sandalwood timber product, but as our plantation is only young, we need to access the timber commercially.

After exhaustive research, it appears that I would not be able to buy commercial quantities of Sandalwood, under the present structure of the industry. It appears to be a resource which is pre destined for certain markets, with potential local processors locked out of being able to access the resource. Consequently, it would be foolhardy of me to attempt to begin a processing business based on Sandalwood, when there is no guaranteed access to the resource.

During my research, it has been pointed out to me that the contract to market the Sandalwood resource owned by the Crown, is open for renewal by public tender, effective from June 30 2014, and that the tender process will begin in January 2013. This will effectively lock the marketing process for a further 7 years. It seems that the call for an enquiry is timely, in light of the fact that the retendering of the marketing, handling and storage of the Crown timber is open to public tender.

Calls for better access to the resource by local manufacturing and processing businesses, could be addressed during the construction of the new public tender document. In talks with FPC representatives, it appears that the decision to market the timber overseas, to the detriment of local businesses, is not a contractual obligation of winning the tender. In fact, a winning tender could choose to market the timber locally first, before entering export arrangements. We in the industry don't believe that FPC would wish to upset the status quo in this regard, therefore if we attempted to enter the tender process, the long standing association of FPC and Wescorp would take precedence. Neither do we have the financial ability to enter the tender process, merely to guarantee local processors access to the timber.

It could also occur that a company such as Mt. Romance could bid for the contract, monopolising the resource to the further detriment of local business.

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How FPC decide to word the tender documents is critical to the future of local businesses, who need timber to function. This decision is taken by the FPC Executive in consultation with the relevant Minister, and although there is an opportunity to write to the Executive Committee, offering alternative ideas, their willingness to change is dubious.

Put simply, the ability of the ordinary person to influence industry decision makers is limited, although I will be writing to the executive of FPC with alternative ideas.

Other aspects of industry structure which could be changed need some incentive to enable that change. The Sandalwood Act legislates the need for a licence to harvest Sandalwood. Even this simple determination has multiple options as to how to construct such a licencing regime.

At present the licence does not necessarily guarantee access to the timber. Access is determined by who wins tenders for the right to harvest. This can change annually. One year a person could have access through the tender system, and the next year be denied access. This does not foster continuity in integrity, professionalism, skills, public relations, investments in plant etc. I have proposed an alternative system, based on the Fishing Industry licence ownership structures.

A licence once earned, would be owned by a sandalwood harvest licence holder. The licences would be limited in number, and could be leased out, sold, bought or transferred. Pastoralists would be given a proportion of these licences, for a minimum ability to exploit timber on the Pastoral leases which they own. Other licences would be issued to historically active contractors with a long and stable history of sandalwood harvesting. The tonnages attached to the licences would be determined by historical averages of their productivity.

The advantages this would have would be to:

- stabilize the number of licence holders
- create a professional group committed to the industry
- improve best practice harvest methodologies
- enhance adherence to codes of conduct
- engender solidarity amongst contractors, which would
- encourage them to be involved with policing illegal activities
- encourage investment in more productive plant and machinery
- allow stable bases of operation to be built
- encourage stability of the labour pool
- and reduce requirements for training and supervision
- improve safety in the workplace by encouraging a stable and skilled workforce
- improve the rapport with FPC by encouraging long lasting associations
- be involved in marketing the timber
- royalties would be paid to FPC, commensurate with the perceived requirements of FPC to recover costs and make a **reasonable** profit

For FPC the advantages would be as numerous, including:

- removal of the need for annual tenders

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- stabilising the price to contractors with the ability to
- increase the price to contractors in lieu of decreased management costs
- a stable group of professional contractors to deal with
- increased surveillance of illegal activities by contractors
- a simple royalty system applied to harvesting the timber
- reduce the need to market the timber
- allow contractors to market timber
- improve access to resource for local processors
- ease of management
- ability to cancel licences and resell them if licence conditions are breached

Within this list, you may have noticed a change to marketing arrangements where licence holders market their own timber. There is no need to market the timber from FPCs' perspective, if they are earning a royalty commensurate with their perceived need for income from the resource. The amount paid in royalties would need to satisfy the provisions of the act, requiring recovery of costs, payments to DEC and a **reasonable** profit. By relinquishing the need to market the timber, will free up further resources in a time when FPC are trying to restructure to avoid further increases in operating costs.

I believe that by instituting such a system, would in fact encourage local processing and marketing opportunities to the extent that the whole quota could be processed within WA before export overseas. The present contract marketing company would more than likely operate as normal, but without a marketing commission income. They would soon adjust to the new regime of buying timber from the licence holders, without a significant change in revenue. They would become truly independent of the state, and could earn profits from their marketing activities instead of commissions. With the capital equipment, staff, premises, contacts and industry reputation still intact, they would be well placed to benefit positively from the change. The current processing players would still be able to source the timber from the licence holders, and for those who do not wish to cultivate new markets, the stable industry markets within WA would soak up most of the timber anyway.

The pastoralists, upon whose land the majority of harvesting activities take place are vocal about their situation within the industry, and I don't need to alliterate their concerns here. My plan does however advantage them in ways which perhaps they are unaware. It is easy to dismiss them as just the grazing lessee, with no other rights than that. FPC, from my limited exposure to the staff, seem to believe that they do not deserve consideration within the context of the sandalwood industry, unless they are harvesting contractors. At present, pastoralists make up a significant proportion of the harvest contract licences. I am also aware that small contracts are traditionally granted to pastoralists, upon application.

It cannot be denied however, that harvesting activities upon their lease have a detrimental effect on the pastoralist in some situations. By allowing an automatic small allowance (5 tonne?) to pastoralists within the sandalwood belt, would allow a certain amount of equity to them. If they were not interested in harvesting, the quota could be leased to another licence holder. This would also apply to pastoralists whose resource was still in a recovery or regeneration phase. Pastoralists would have the

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ability to accumulate tonnage by leasing from neighbours who had no interest in harvesting sandalwood.

My reading of the Acts would allow such a regime to function. I am not a legal expert, and it may be that the alternative licencing arrangement I have outlined would in fact be unattainable. The licencing may be attainable, but not the marketing. However you look at the industry, I believe there is a lot of room to change for the good of all the players. This plan does not rely on one idea to support the others.

As I mentioned earlier, my concern is the lack of access to the resource for local processors, other than the contracted tonnage which goes to Mt. Romance. The new marketing contract, which is to be renewed in 2014 could be broken down into a number of sub contracts, ensuring a supply to local processors.

The Sandalwood industry has a window of opportunity to influence the future look of the industry structure. I believe that the process of drawing up the new handling, storage and marketing contract is open to influence from all sectors of the industry and perhaps your Committee could have some oversight into this process.

I look forward with interest, to the deliberations of your committee on this matter.

Yours sincerely,

Stephen Fry,
Santaleuca Forestry,

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