



sandalwest
forest management

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

Dear Sir

RE: PETITION NUMBER 152 TABLED BY HON.WENDY DUNCAN

Thank you allowing Sandalwest Forest Management Consultants to make a submission in regard to the petition on management and sustainability of sandalwood in Western Australia.

Background

There are five species of sandalwood growing in Western Australia including the Indian Sandalwood that is grown in plantations in the Ord Valley near Kununurra.

The Australian Sandalwood that is the subject of the petition tabled by the Hon. Wendy Duncan has been harvested and regenerated in Western Australia for over 160 years, although the regeneration aspect has only been well-managed in the past decade.

The history of the sandalwood trade is one of solid and trusting ties between the Western Australian Government and Chinese families some of whom now have third generation buyers. The Australian Sandalwood Company was originally formed to provide for the orderly marketing of the State's sandalwood resource. Whilst this objective was achieved the formation of the company was achieved without the opportunity for competitors to bid as the work undertaken by the Australian Sandalwood Company had never been offered under public tender. This was changed in 1995 when the Western Australian Government ceased its arrangement with the Australian Sandalwood Company and commenced managing the marketing and processing of Sandalwood through the Department of Conservation and Land Management (1995 – 2000) and the Forest Products Commission (November 2000 to present).

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Management and contractual arrangements

Through two public successive tender events the Forest Products Commission secured the services of Wescorp Sandalwood to market and process sandalwood on behalf of the State.

Through its Agent (Wescorp Sandalwood) the FPC is able to collect all of the various sandalwood products that arise from the natural harvest and the re-purchase of wood (known as spent charge) from the oil extraction industry. This broad scope of harvesting and re-purchasing allows the FPC to achieve the best possible utilisation of the harvested tree by a process of careful blending and mixing of ingredients.

The contracts to harvest, regenerate and deliver the sandalwood to the FPC's Agent are also let mostly on a public tender basis. Additional small contracts for the harvesting of dead sandalwood are negotiated under private treaty contracts with pastoralists who are not required to undergo the tender process. Pastoralists also have the option of securing larger contracts for operation on crown land and pastoral leases (including their own pastoral lease if the resource exists). We have assisted a number of pastoralists in securing contracts for harvesting and cartage of sandalwood which has contributed significantly to the revenue stream of pastoral operations.

It is understood that the petitioner has also been offered private treaty contracts by the FPC over a period of ten years and previously held a mulga fence post contract. It is also understood that the petitioner has failed in his obligations under that contract and has failed to accept a contract to harvest sandalwood. With strict environmental controls including restriction of grazing to protect sandalwood regeneration it is common for pastoralists to turn down the offer of a contract to harvest.

Based on five years' experience of tendering for sandalwood contracts on behalf of clients our view is that the integrity and professionalism of the FPC contract management practices are entirely adequate. Any consideration to hand over part, or all, of the contract management responsibility to any other organization would need to be based on the need to ensure a sustainable industry. The self-interests of the petitioner and a number of those presenting submissions do not meet this criterion.

Legislation and management regulation

The Sandalwood industry is managed under the Sandalwood Act (1929), the CALM Act and the Order in Council *Limitations on Sandalwood Harvesting 1995*.

The Sandalwood operations are managed in accordance with the Sandalwood Resource Management Plan.

A range of Contracts including harvesting, regeneration, cartage, marketing and processing contain further management conditions. There are strict contractual obligations to ensure the sustainability of the resource and to fit in with pastoral, mining and Local Government operations. Other environmental, cultural and heritage obligations are included in contracts.

The conditions of tendering require contractors to comply with strict rules set out in the *Sandalwood Operations Manual*. Additionally, the FPC has an Environmental Management System that provides for monitoring and review of practices, incident identification and recording, corrective actions and avenues for continual improvement.

Comments contained in submissions alluding to insufficient planning, inadequate care in establishing sandalwood camps, sub-standard road maintenance, damage to infrastructure or environmental damage are, in my experience, untrue. The proponents of such comments appear to be either being deliberately misleading or they are simply poorly informed.

Our understanding, and it is relevant to note, is that approximately 50% of the sandalwood harvested is done so under contract by pastoralists.

Market

Once delivered to Wescorp Sandalwood the resource is processed for sale to local oil producers and the remaining wood is sold to buyers in mainland China, Taiwan, Hong Kong, Malaysia and other Asian countries. Green wood is used for oil extraction, dead wood is used for incense and spent charge is blended in with incense powders. It is very important to understand the value of the Asian market as it is the only market capable of buying the dead Sandalwood that is valuable for incense however unsuitable for oil extraction.

Again, comments contained in submission that the FPC withholds sandalwood resource from Western Australian producers in favour of overseas buyers are also poorly informed. Western Australian oil producers have in the past experimented with extracting oil from the dead sandalwood that is sold overseas however the oil extracted is not commercially saleable.

It is only through the blending of low-oil components of the green tree (branches and twigs) and the spent charge with dead wood that the full utilisation of the tree can be achieved. This low value material would otherwise be wasted.

The local oil market is heavily dominated by Mount Romance (a subsidiary of Tropical Forestry Services). The monopoly and cost structure is a result of subsidies provided by the State Government to establish the business in Albany in 1996. The value of this subsidy in today's terms is approximately \$6 million in lost revenue to the State. The contract with Mount Romance is due to expire in 2016. The expiry of this contract will allow an open market system of purchasing green Sandalwood by the other oil producers in Western Australia who are currently denied access to the resource due to limited supply after the Mount Romance obligations are met.

Opening up the oil processing market in Western Australia will allow increased competition, opportunities for small producers and greater returns to the State.

Such as change will benefit a range of parties including:

- Other local oil producers
- The State through increased revenue, and
- Private sandalwood plantation growers who will gain access to the oil market prior to the plantation wood being available. This will enable blending of the lower grade plantation sandalwood with the higher value wildwood.

It is important to note the difficulty many small Australian businesses (including Sandalwest) have when dealing with Chinese companies. Along with the language and cultural nuances there is shrewdness that Australians fail to comprehend until they find that prices have been squeezed downwards and supply chains are interrupted to the benefit of the Chinese and the detriment of Australian suppliers.

It would be naïve of any industry group to think that dismantling the current, very successful marketing arrangement between FPC and Wescorp Sandalwood in favour of numerous individuals venturing into the market would be anything other than an expensive interruption to the stability of the WA sandalwood industry.

Aboriginal employment

Aboriginal people have been involved in sandalwood harvesting and regeneration for decades and are currently involved as contractors and employees. The FPC has engaged Aboriginal contractors through the public tender process and at Wescorp Sandalwood up to 50% of employees are of Aboriginal descent. It is extremely important to protect this arrangement which may fail if the Government management of sandalwood was to be diluted. None of the Aboriginal contractors are pastoralists and they would most likely be disadvantaged by a contractual arrangement that favoured pastoralists as suggested in a number of submissions.

Sandalwood industry management

Sandalwest is fully supportive of the continued management of the Sandalwood resource by the State Government as presently happens through the FPC. In the past ten years Sandalwest staff have toured the Sandalwood growing regions, inspected harvesting and regeneration operations and participated in inventory and research. In doing this we have witnessed the excellent work pastoralists and the FPC have achieved through their cooperative efforts to protect sandalwood from grazing. Unfortunately, there are also many examples of pastoralists allowing goats, and to a lesser extent, cattle to forage on regenerating sandalwood causing the complete localized destruction of the species.

Any changes in the management of the sandalwood resource in Western Australia must be made in complete knowledge of the sustainability requirements of the resource from an environmental, financial and social perspective.

One improvement in the organisational arrangements for managing the sandalwood resource would be to transfer the sandalwood ecologist from the WA Department of Agriculture and Food back to the FPC where the position was previously based. This would provide an increased focus on research and applying research results to operational management. Sandalwest considers this important given the threats posed by climate change, overgrazing by pastoral operations, invasion of feral camels and other vectors of damage particularly to sandalwood regeneration.

Although much of this submission seeks the retention of current management arrangements and practices Sandalwest is considerate of the needs of the pastoral industry to find new revenue streams.

If the Government wanted to provide a quick income boost to pastoralists this could be achieved by returning sandalwood stumpages to pastoralists as a subsidy. Handing over management of sandalwood to pastoralists without adequate controls and regeneration commitments is essentially subsidising pastoralists.

A better alternative for Government to support pastoralism would be to promote the growing of sandalwood in plantations on Diversification Leases within the Pastoral Leases. In this arrangement the pastoralist would retain full ownership of the resource and be encouraged to ensure the protection of the plantation from grazing and other damaging agents. There is also scope for pastoralists to have joint venture arrangements with the FPC, mining companies or other investors.

In this way the sandalwood industry is expanded and developed in a positive manner rather than the proposal to divide the industry as the petitioner appears to be advocating.

Close

The claims by the petitioner that the Western Australian sandalwood industry is mismanaged and unsustainable is in our view, completely false and overlooks the actual management policy, practices and plans that apply to the industry. The claims against the Forest Products Commission appear to be based on self-interest and provide no credible alternative to supporting this industry that provides social, environmental and financial benefits to Western Australia.

Sandalwest is committed to the best use of the Sandalwood resource for Western Australians and is willing to participate in any further review of its management.

Please feel free to contact our representative below.

At the conclusion of the inquiry if there is a report presented to the Legislative Council we would appreciate a copy of that report.

Again, thank you for the opportunity to comment.

Best regards

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