



## ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

### 2016-17 ANNUAL REPORT HEARINGS – ADDITIONAL QUESTIONS

#### Forest Products Commission

#### Hon Diane Evers MLC asked:

1. I refer to page 124 and the tables on sawlog and industrial wood production for pine plantations:
  - (a) Given that budgeted demand and actual supply for sawlog 2016-17 has dropped to levels similar to those 4 years earlier, what is the FPC doing to increase this market; and

Answer: The demand for sawlogs is closely linked to the local housing market which peaked over the period 2013-14 to 2015-16. Currently levels of local construction are more than 30 per cent below the peak. Demand for sawlogs from the Forest Products Commission's (FPC) customers for 2017-18 is increasing.

- (b) What is the budgeted demand for 2017-18 of industrial wood production given the supply was 21% higher than budgeted?

Answer: The budgeted demand for 2017-18 is 371,000 tonnes.

2. I refer to page 121, Point 6 and the statement 'the FPC is working with industry to find new markets for karri products from karri thinning' - please provide an update on this?

Answer: During 2016-17 some of the logs produced from karri thinnings were peeled into veneers and used in the production of laminated veneer lumber (LVL). This provided a higher value use for logs that were previously exported as wood chips.

The demand for logs to be used in LVL production has continued to increase during the current financial year. There is also strong interest in the use of karri thinnings for other veneer-based products such as plywood and composites.

3. I refer to page 120, Point 4 Timeliness of karri forest regeneration:

For the area not completed from the 2016 harvest year due to the need to complete silviculture treatments in adjacent forests, will the area be restored/regenerated in addition to that for the 2017 harvest operation?

Answer: Yes

4. I refer to page 119 and the Area of karri forest clear-felled or partially harvested:

(a) Please provide the area clear-felled or partially harvested for 2017; and

Answer: This figure is made available each year in the FPC's Annual Report. These figures are collated by the Department of Biodiversity Conservation and Attractions and will only be available after June 2018.

(b) If possible, please provide the estimate for 2018?

Answer: It is estimated that this area will be similar to recent years. (Average of 308 hectares over 2013 – 2016)

5. I refer to page 72 of the Annual report - related party transactions:

(a) Please explain the payment of \$4.377 million to the State Solicitors office for land acquisition;

Answer: The State Solicitor was the settlement agent for the Forest Products Commission's purchase of land.

(b) What land was this in relation to; and

Answer: The purchase of land was part of the Forest Products Commission's softwood plantation estate expansion in accordance with the *Softwood Industry Strategy for Western Australia*.

(c) What was the total price paid for the land?

Answer: \$6.0 million.

6. I refer to page 109-110 of the Annual Report. Please provide detailed calculations for the change in Biological Asset Valuations for 2016-17 and 2017-18, broken down by native forest, plantation and sandalwood (resulting in an increase in total valuation of \$5 million in 2015-16 and a decrease in valuation of \$6.7 million in 2016-17)?

Answer: the following table and associated notes provide the detailed calculations for the change in Biological Asset Valuations for 2015-16 and 2016-17:

**Statement of Comprehensive Income**  
**Biological Asset Valuation (Decrease)/ Increase**

	Native Forest \$000	Sandalwood \$000	Plantations \$000	Non-Commercial \$000	Total \$000	Note
<b><u>2015-16</u></b>						
Volume	(2,045)	(6,964)	(9,452)		(18,461)	1
Revenue	(1,163)	19,963	(3,040)		15,760	2
Expense	(2,660)	(1,873)	20,625		16,092	3
Discount rate	0	0	0		0	4
Plantation sandalwood	0	0	3,009		3,009	5
Plantation Establishment in current year valued at zero	0	0	(5,925)		(5,925)	6
Provision for Replant Harvey Coast			(5,470)		(5,470)	7
	<b>(5,868)</b>	<b>11,126</b>	<b>(253)</b>	<b>0</b>	<b>5,005</b>	
<b><u>2016-17</u></b>						
Volume	12,612	(12,257)	18,912		19,267	1
Revenue	11,852	(9,910)	(11,775)		(9,833)	2
Expense	(24,608)	16,209	(6,480)		(14,879)	3
Discount rate	0	0	0		0	4
Plantation sandalwood	0	0	1,368		1,368	5
Plantation Establishment in current year valued at zero	0	0	(3,756)	(792)	(4,548)	6
Provision for Replant Harvey Coast	0	0	1,962		1,962	7
	<b>(144)</b>	<b>(5,958)</b>	<b>231</b>	<b>(792)</b>	<b>(6,663)</b>	

For Notes 1 to 5 refer to the 2016-17 Annual Report Note 28.0; pages 81 to 83 inclusive.

Note 6 is the investment in plantation establishment each financial year which is charged to the Statement of Comprehensive Income as the newly established trees do not have a valuation value until about year 7.

Note 7 for 2015-16 is the value of the provision established to replant the Harvey Coast stands destroyed by fire in January 2016. The 2016-17 value is the decrease in the provision liability required to complete the planting in 2017-18. The balance of the replant provision as at 30 June 2017 is \$2.206 million (refer to Annual Report Note 32.0).

7. I refer to pages 109 and 110:

- (a) What does the amount of \$1.8 million in 2016-17 and \$2.6 million in 2015-16 under 'Inter-segment sales' in Plantations refer to;

Answer: This amount refers to the value of nursery seed and seedlings required by the FPC business segments for forest planting.

- (b) How does this impact the final price paid to sharefarmers/growers; and

Answer: This does not impact the share of the net revenue paid to sharefarmers/growers.

- (c) Please explain why the amount has reduced from 2015-16 to 2016-17?

Answer: The amount reduced in 2016-17 as a result of the plantation establishment program for 2016-17 being less than the program for 2015-16.

8. I refer to page 70 of the Annual Report and the Commonwealth contribution to National Action Plan for Salinity and Water Quality:

- (a) What projects are being funded under this plan;

Answer: No projects are currently being funded. The FPC is recognising funds received in previous years as a deferred revenue liability.

- (b) How much is the State contributing to these projects; and

Answer: The State is not contributing to these projects. This project was a \$64 million jointly funded (50:50) project between the Commonwealth and the State Government with contributions ceasing in 2008.

- (c) What is the estimated timeframe for these projects?

Answer: This project commenced in 2005 and finished in 2009.

9. I refer to page 109 and 110 (segmented financial statements):

- (a) Please explain what factors have resulted in sandalwood revenue being \$9.5 million lower in 2016-17 compared to the previous year (from \$32.2 million in 2015-16 to \$22.7 million in 2016-17);

Answer: The change in revenue is primarily due to sales in 2015-16 of inventory stock prior to the commencement of a new processing contract. Also affecting the change of revenue was lower than expected sales to China in 2016-17.

- (b) Does the FPC consider this trend is likely to continue;

Answer: No

- (c) What steps are FPC taking to develop plantation sandalwood;

Answer: The FPC maintains more than 5,800 hectares of plantations of Western Australian sandalwood and undertakes a range of research and industry development activities, including the publication of its research findings, providing advice and information to private property sandalwood growers. In addition the FPC is working with the local growers to develop markets for plantation wood.

- (d) Please explain what factors have resulted in plantation revenue being \$4 million lower in 2016-17 compared to the previous year (from \$59 million in 2015-16 to \$55 million in 2016-17);

Answer: The main cause for the lower revenue was reduced demand from the FPC's major customers due to a softening of the housing market.

- (e) Does the FPC consider this trend likely to continue? If so, what is it doing to address this; and

Answer: This trend is not likely to continue as budgeted demand in the current year is for a small increase in sales.

- (f) Please advise if there are any changes to pricing structures or increased harvested amounts that are attributable to the increase of \$4.1 million revenue in native forestry (from \$32.4 million in 2015-16 to \$36.5 million in 2016-17)?

Answer: The increase in Native Forest revenue from 2015-16 to 2016-17 is mainly due to an increased harvest amount of 84,000 tonnes.

10. Does the FPC forward on any length premiums it receives to any sharefarmers/growers in their remuneration (based on log lengths equal to or greater than 4.8m):

Answer: There are different arrangements for the remuneration of sharefarmers/growers. Some agreements are based on a pre-determined stumpage while others are based on the actual net proceeds of sale.

Where there is agreement to pay on a pre-determined stumpage basis, any customer specific premiums or discounts are not included in the remuneration.

When the payment is based on net proceeds, the actual payments, including length premiums, should be included in the remuneration. Notwithstanding this requirement, a recent review of processes within FPC has established that length premiums have not been passed on to the sharefarmer when remuneration is based on net revenue. This omission is currently being rectified.

- (a) If not why not; this being in relation to all shareholders, understanding that many contracts may not include this particular aspect; and

Answer: See above. Payment of length premiums is only required under some contracts.

- (b) If yes, what is provided to the sharefarmer/grower to substantiate length premiums are passed on?

Answer: See above. No information has been provided to sharefarmers, but information should have been provided in some circumstances.

11. I refer to the indexation details provided in answer 8 of the Annual report hearings - questions prior to hearings:

- (a) I have been provided by a constituent with Schedules of base stumpages for scanned sawlog in 1998 and 2017 which indicates the stumpage in 2017 is significantly lower than that in 1998. Please provide all indexation schedules since 1998;

Answer: See attached.

- (a) Please advise what is included in the base stumpage rate and what has caused a lower rate than almost 20 years earlier; and

Answer: The indexation rate for base stumpage is made up of three components:

- (1) CPI
- (2) Fuel Index
- (3) Wespine Index

Every six months, the Buyer, through an external auditor, provides the FPC with a calculation representing the movement in the timber products sold, relevant to the previous indexation period. The FPC then applies this information to adjust the prices contained in the contract and Schedule of Base Stumpages.

- (a) Have the indexation rates and the application to prices been independently audited in the past 20 years?

Answer: Yes

12. I refer to the response provided to Question 2(c) of the Annual report - Questions prior to hearings:

- (a) Does the FPC obtain independent auditors to verify its method of price calculation and payments made to sharefarmers/growers are correct; and

Answer: No

- (b) If not, why not?

Answer: Independent audit of the method of price calculation and payments have not been a standard audit but will be scheduled in future. The first audit is scheduled for April 2018.

13. I refer to the agency's response to question 2(c) of the Annual Report Hearings Questions prior to hearings whereby some sharefarmers receive a crop share percentage of the total net revenue from harvesting operations:

- (a) Please provide all State Agreements under which the prices FPC receive for the sale of pine are determined, including a copy of all appendixes and schedules that detail pricing.;

Answer:

Agreement Act	Corresponding Contract(s)
Wood Processing (WESFI) Agreement Act 2000	Same as Act
Wood Processing (Wesbeam) Agreement Act 2002	Production Contract No. 2700 (Sale of Softwood Log Timber)
Dardanup Pine Sawmill Agreement Act 1992	Amended and Restated Agreement for Sale of Pine Sawlogs – Contract No. 2200 (2008 – 2033)

Copies of all relevant appendixes and schedules attached.

- (b) Has the Dardanup Pine Log Sawmill Agreement Act 1992, which was due to expire in 2012 been renewed or extended; and

Answer: Yes. The Agreement that was made pursuant to the Act has been extended. Production Contract No. 2200 was amended and restated in 2008.

- (c) If yes to (b) when did this occur?

Answer: The Agreement was extended when Production Contract No. 2200 was amended and restated in 2008

14. I refer to the response provided by the agency to Questions Prior to the Hearings, Question 2(c) and (d):

- (a) For those sharefarmers that are paid the net revenue, what is provided to the grower to substantiate the amount received is correct;

Answer: Private property owners receive copies of all delivery notes for each truck from that harvesting operation, a spreadsheet showing the stumpage and calculation of remuneration based on this stumpage, and a recipient created tax invoice (RCTI). .

- (a) Are sharefarmers provided with all relevant schedules of pricing and indexation under the acts that provide for the rates FPC receive for timber;

Answer: This information is not provided with the RCTI.

- (b) If no to b) why not;

Answer: The agreements between the FPC and its customers are considered commercial-in-confidence. However, if the sharefarmer was to request this information and the customer was to agree to its release, the FPC would have no objection to the provision of this information.

- (c) Are costs of harvesting, cartage and in-forest charges provided to sharefarmers; and

Answer: The agreements between the FPC and its contractors are considered commercial-in-confidence. However, if the sharefarmer was to request this information and the contractor was to agree to its release, the FPC would have no objection to the provision of this information. In-forest costs can be provided upon request.

- (d) If no to d) why not?

Answer: The sharefarmers are provided with a supporting calculation spreadsheet.



produced as sawlogs. The graphs below are the summary data from the study which indicate the difference in diameter and length between logs produced from 1995 to 2000, and 2001 to 2006.

During the period 1995 to 2000 policy changes included the increased reservation of forests associated with the Regional Forest Agreement. The “Protecting Our Old Growth Forest Policy” was introduced early in 2001, and further reservation of forests occurred under the *Forest Management Plan 2004-2013*.

The study data indicates there was a reduction in log size between the two periods, particular in the northern forest areas. There has not been a more recent study to determine whether there have been further changes.

