

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ANSWERS TO 2022-23 BUDGET ESTIMATES - QUESTIONS PRIOR TO HEARING

Forest Products Commission

Hon Steve Martin MLC asked:

- 1) I refer to page 296 of Budget Paper 2, Volume 1, Paragraph 2:
- a) What impact does the Commission expect the new Forest Management Plan will have on its financial forests; and
 - b) Will the Commission please table all information pertaining to ecological thinning for forest health in the possession of the Commission, including costings? If not, why not:?

Answer:

- a) The Commission will not be able to quantify any impact until the Forest Management Plan 2024-33 is released.
- b) The nature, location and extent of ecological thinning to be undertaken will be determined through the process to develop the next *Forest Management Plan 2024-2033*, which is being undertaken by the Department of Biodiversity, Conservation and Attractions on behalf of the Conservation and Parks Commission.

- 2) I refer to page 296 of Budget Paper 2, Volume 1, Paragraph 5:

- a) How is the Commission planning to meet demand for softwood products in the short term, considering Western Australia is currently facing a shortage of softwood materials; and
- b) Is the Government's inability to meet current demand resulting in increasing construction development costs (specifically housing) as businesses compete to access limited supplies?

Answer:

- a) The Commission is managing the existing softwood estate so as to best match demand from domestic wood processors.
- b) The Commission does not maintain data on the costs of housing construction.

- 3) I refer to page 296 of Budget Paper 2, Volume 1, Desired Outcome number 2 'Facilitate a vibrant forest industry to create local jobs, particularly in regional Western Australia'. How does the Government's decision to end the sustainable native hardwood forestry industry align with this desired outcome?

Answer:

The native timber industry represents only 8 per cent of the WA forest industry and has made an operating loss of \$2.7 million to the WA taxpayer since the start of the current FMP in 2014. The McGowan Government, through the FPC, has and will continue to invest in sustainable plantation forestry in regional WA including the \$350 million investment over the next 10 years in pine plantations.

4. I refer to page 297 of Budget Paper 2, Volume 1, item 'The achievement of thinning schedules for softwood plantations' and Note 2:

Minister's initials



- a) Will the Commission expand on why there have been delays in developing the suitable market, in particular how this has occurred in a context of extremely high demand for softwood plantation produce;
- b) What was the outcome of the Commission's 2020 Expression of interests seeking new markets;
- c) What are the practical implications of the delays mentioned;
- d) Why has the delay in achieving thinning schedules not appeared to be rectified in the 2022-23 year; and
- e) When is the Commission expected to meet the 95% target?

Answer:

- a) The current high demand for softwood in WA is primarily for structural products which are not produced from logs arising from first thinning operations. Typically first thinning harvesting operations produce low quality Industrial Wood and more than can be consumed by the domestic market. Additionally it is not commercially viable to haul Industrial wood very long distances. Consequently export markets needed to be secured to both; absorb additional quantities, and as an outlet for plantations remote from domestic processors.
- b) The Commission did not release an Expression of Interest for the sale of softwood products in 2020.
- c) Thinning can take place at a range of ages based on a variety of factors such as genetics, soil type, nutrition, rainfall etc and any impact would take many years to express.
- d) Challenges remain in regard to securing markets for thinning products from plantations in regions where plantations have traditionally not been grown and where no local market currently exists. There are also challenges in securing sufficient harvest and haul capacity to deliver against an expanded thinning program.
- e) The FPC will continue working to establish new market opportunities which will support achievement of the thinning target and notes that some progress in this respect has been made in the Esperance region over the past year.

5. I refer to page 298 of Budget Paper 2, Volume 1, Paragraph 1.1:

- a) Where is the Commission looking to purchase land;
- b) How many hectares of land is the Commission looking to purchase this financial year; and
- c) How much cost-per-hectare is the Commission expecting to pay?

Answer:

- a) The FPC is seeking to purchase land in the South West and Great Southern Regions which meets the relevant criteria for rainfall and soil type.
- b) The land purchase program will be implemented strategically with due consideration for market conditions and other relevant factors.
- c) Average land purchase costs for the program will be determined by market forces.

6. I refer to page 299 of Budget Paper 2, Volume 1, Paragraphs 3-5:

- a) How many hectares of land have already been purchased under the Program;
- b) What is the average cost-per-hectare of land already purchased;

- c) How many saplings have been planted as part of the Program; and
- d) How many more saplings are expected to be planted?

Answer:

- a) Approximately 6000 hectares since 2017
- b) This information is commercial in confidence.
- c) 8,000,000 seedlings planted (approximately)
- d) Potentially in excess of 40 million seedlings

7. I refer to page 295 of Budget Paper 2, Volume 1, Item 'Revenue from Operations':

- a) Why did the Commission not meet the budgeted target for the 2021-22 year;
- b) When and why did the Commission revise the 2022-23 figure from \$145.5 million in the 2021-22 Budget to \$118.8 million in this year's Budget; and
- c) Does the Commission expect to revise the figures for 2023-24, 2024-25 and 2025-26 in light of this?

Answer:

- a) The following are the main reasons why the Commission did not meet the budget target for 2021-22:
 - Lower than anticipated per hectare production of jarrah sawlog has occurred in recent years. This has meant that more hectares need to be harvested to harvest the same quantity of sawlog. This increases costs and reduces revenue.
 - There has been a change in the product mix from coupes with less sawlog and more biomass. While the total tonnage of product remains the same, this equates to less sawlog and therefore less revenue per hectare.
 - The tight labour market constrains contractors' ability to meet current production targets.
- b) The 2022-23 Budget figure was revised down due to lower than anticipated per hectare recovery of Jarrah sawlog and increased costs from additional areas required. Harvest and haulage capacity constraints within the industry have also reduced deliveries of forest products to the Forest Products Commission's customers, therefore adversely impacting current and future revenues.
- c) The Commission will revise the total revenue forecast for 2023-24, 2024-25 and 2025-26 once the new Forest Management Plan (FMP) 2024-33 is released by the Department of Biodiversity, Conservation, and Attractions (DBCA).

8. I refer to page 295 of Budget Paper 2, Volume 1, Item 'Total Expenses':

- a) Why is the amount spent under total expenses in the 2022-23 forward estimate nearly \$10 million less than in the 2021-22 Budget; and
- b) Does the Commission expect to revise the total expense figures for 2023-24, 2024-25 and 2025-26 in light of this?

Answer:

- a) The decrease in total expenses between 2021-22 Budget (\$143.152 million) and 2022-23 Budget Year (\$132.691 million) reflects the decrease in harvest and haulage costs in line with the forecast decrease in the sale of native forest products.

b) The Commission will revise the total expense forecast for 2023-24, 2024-25 and 2025-26 once the new Forest Management Plan (FMP) 2024-33 is released by the Department of Biodiversity, Conservation, and Attractions (DBCA).

9. I refer to page 295 of Budget Paper 2, Volume 1, Item 'Net Profit After Tax'. As the Commission predicts a relatively small profit this financial year, does the Commission expect to rely on Government support to remain viable in the future?

Answer:

Any potential equity injection in the 2023-24 to 2025-26 outyears will not be known until the new Forest Management Plan (FMP) 2024-33 is released by the Department of Biodiversity, Conservation, and Attractions (DBCA).

10. I refer to page 296 of Budget Paper 2, Volume 1, Paragraph 2:

- a) How much timber from ecological thinning does the Commission expect to be available for use as a result of mining activities;
- b) How will the Commission determine who receives the remaining timber;
- c) How much timber will be available for firewood use;
- d) How much timber will be available for furniture manufacturers;
- e) How much timber will be available for construction and joinery; and
- f) How much timber will be available for other uses, such as nature playgrounds?

Answer:

a-f) This information cannot be determined until the release of the Forest Management Plan 2024-33.

11. I refer to page 296 of Budget Paper 2, Volume 1, Paragraph 2:

- a) Will the Commission ensure that WA-based Silicone manufacturer Simcoa receive sufficient levels of timber;
- b) If yes to (a), how much timber will be made available;
- c) If no to (a), why not; and
- d) If no to (a), does the Commission then understand that Simcoa will be forced to import coal from Colombia to continue operations in Western Australia's South West?

Answer:

a-c) The Commission is unable to answer these questions until after the release of the Forest Management Plan 2024-33.

d) The Commission is aware that Simcoa already imports coal from Columbia and has done so for many years.

12. I refer to page 295, Budget Paper 2, Volume 1, note (c):

- a) How much of the \$11.3 million for Softwood Expansion Program allocated in 2021-22 was spent;
- b) Will the Government provide an itemized account on the expenditure of this money in 2021-22? If not, why not;

- c) Noting the allocation of \$39.4 million in 2022-23 for the Softwood Expansion Program, how much of this money is expected to be spent on purchasing land and how much on planting seedlings on land currently managed by the FPC; and
- d) How many new regional jobs are expected to be created from the expenditure of just over \$39 million in 2022-23?

Answer:

a-c) The annual allocation in the budget for the Softwood Expansion Program is an indicative figure.

The Softwood Expansion Program has been specifically designed to allow for fluctuations in market prices and land availability and while the \$350 million has been allocated across the 10 years, the funds can be brought forward or deferred to account for these year to year variations.

As at 31 May 2022 the Commission has paid \$20,386.36 (exc GST) in relation to the Softwood Expansion Program in 20221-22 to undertake valuations of prospective properties.

d) The \$350 million expansion of softwood timber plantation will create about 140 timber industry jobs, protect about 1,980 existing jobs, mostly in the South-West timber industry, and support the many thousands of jobs in the State's construction industry that depend upon the reliable supply of softwood timber.

13. I refer to page 296, Budget Paper 2, Volume 1, Paragraph 3:

- a) Noting that the Commission imposed indicative supply volumes for 2022 of less than 50% of base contracted volumes which has resulted in reduced harvest and reduced supply to buyers, will the Commission table all evidence, including scientific evidence in support of the claim that jarrah yields are declining for reasons other than self-imposed reduced harvest limits; and
- b) If not, why not?

Answer:

a) The Commission notes the statement in the question is incorrect. The indicative supply volume set by the Commission for 2022 was based on the average delivery to sawmills over the past two years. The total tonnage available to industry in 2022 was the same average as has been requested by industry since 2014. If over the past two years sawmills have been ordering their full contract volume then they were allocated their full contract volume.

The total volume requested in 2022 after the Government announcement was more than double the volume requested in any previous year of the Forest Management Plan 2014-23. The decision to allocate on previous two years supply was based on the knowledge that, in addition to declining average jarrah sawlog yields per hectare, harvesting capacity in native forest operations to deliver these increased volumes did not exist in the industry and it was not practical, feasible or responsible to indicate we could do so.

b) Not applicable.

14. I refer to page 296, Budget Paper 2, Volume 1, Paragraph 7:

- a) How frequently does the Commission use mechanical fire mitigation measures; and
- b) Is there a role of the increased use of mechanical fire mitigation measures?

Answer:

- a) The FPC regularly employs mechanical fire mitigation measures primarily in the form of firebreak construction and maintenance, and strategic pruning. The FPC has not yet engaged in operational Mechanical Fuel Reduction activities but has cooperated in multi-agency trials investigating this forest treatment.
- b) The FPC supports the concept of Mechanical Fuel Reduction and will continue to contribute to investigations into the operational implementation of this activity.

15. I refer to page 297, Budget Paper 2, Volume 1, Note 4:

- a) What has caused a reduced availability of land;
- b) What action has the Commission or Minister taken to address the reduced availability of land;
- c) What were the approval process issues; and
- d) What action has the Commission or Minister taken to address the approval process issues?

Answer:

- a-d) While the amount of land being placed on the market in the target zones is being impacted by strong agricultural commodity markets and prices, the Commission continues to be proactive in seeking new acquisition opportunities.

While land acquisition is the preferred method for expansion, the Commission is also investigating opportunities for increasing sharefarms and industry collaborations.

The Softwood Expansion Program has been specifically designed to allow for fluctuations in market prices and land availability and while the \$350 million has been allocated across the 10 years, the funds can be brought forward or deferred to account for these year to year variations. This avoids the situation as has happened in previous programs where land must be bought at any cost and allows a more strategic approach to land purchases.

16. I refer to page 298, Budget Paper 2, Volume 1, Item 'Softwood Plantation Expansion Program'. Please table an itemised account on the expenditure of \$8.3 million in 2021-22.

Answer:

The annual allocation in the budget for the Softwood Expansion Program is an indicative figure.

The Softwood Expansion Program has been specifically designed to allow for fluctuations in market prices and land availability and while the \$350 million has been allocated across the 10 years, the funds can be brought forward or deferred to account for these year to year variations.

As at 31 May 2022 the Commission has paid \$20,386.36 (exc GST) in relation to the Softwood Expansion Program in 20221-22 to undertake valuations of prospective properties.

17. I refer to page 299, Budget Paper 2, Volume 1, Paragraph 2:

- a) How much is the sale of native forest products expected to be reduced by;
- b) Given that the Premier said it would be "business as usual" to the end of 2023, and the Commission's indicative supply for 2022 is less than 50% of base contracted volumes, what are the reasons for assuming any further reduction in the sale of native forest products in 2022-23;

- c) Has the Minister or Government directed the FPC to further reduce the sale of native forest products in 2022-23;
- d) Will the Minister give an undertaking to native forestry businesses that the Commission will supply base contracted volumes in 2022-23; and
- e) Will the Minister give an undertaking to native forestry businesses that the Commission will supply at least the 2022 indicative supply volumes in 2023? If not, why not?

Answer:

a-e) The line item quoted has no relevance to the questions asked. The Government has not directed the Commission to reduce the sales of native forest products. The indicative supply volume set by the Commission for 2022 was based on the average delivery to sawmills over the past two years. The total tonnage available to industry in 2022 was the same average as has been requested by industry since 2014. The Commission will continue to endeavour to supply all available volume.