

# **STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

**2022–23 BUDGET ESTIMATES**



**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
THURSDAY, 23 JUNE 2022**

**SESSION TWO**

**FOREST PRODUCTS COMMISSION**

## **Members**

**Hon Peter Collier (Chair)  
Hon Samantha Rowe (Deputy Chair)  
Hon Jackie Jarvis  
Hon Nick Goiran  
Hon Dr Brad Pettitt**

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**Hearing commenced at 2.00 pm**

**Hon ALANNAH MacTIERNAN**

**Minister for Regional Development representing the Minister for Forestry, examined:**

**Mr STUART WEST**

**General Manager, Forest Products Commission, examined:**

**Mr ANDREW LYON**

**Director of Business Services, Forest Products Commission, examined:**

**Mr ANTONIO de NOBREGA**

**Director of Finance, Forest Products Commission, examined:**

**Ms EMMA COLLYER**

**Principal Policy Adviser, Office of Minister for Forestry**

**The CHAIR:** Let us get this show on the road. We have only an hour and we have to get through it all. I welcome everyone to today's estimates hearings, particularly the advisers. The committee acknowledges and honours the traditional owners of the ancestral lands upon which we meet today, the Whadjuk Noongar people, and pays its respects to their elders, both past and present.

Can everyone indicate whether you have read understood and signed the document titled "Information for Witnesses"?

[Witnesses gestured in affirmation.]

**The CHAIR:** Your testimony before the committee must be complete and truthful to the best of your knowledge. The hearing is being recorded by Hansard and broadcast live on the Parliament's website. The committee will place the uncorrected transcript of your evidence on the internet a few days after the hearing. When the transcript is finalised, the uncorrected version will be replaced by the finalised version. This is a public hearing but the committee can elect to hear evidence in private. If for some reason you wish to make a confidential statement, you should request that the evidence be taken in closed session before answering the question. Members, before asking your questions, I ask that you provide the relevant page and paragraph numbers where possible.

Minister, would you like to make a brief statement?

**Hon ALANNAH MacTIERNAN:** No, I am the representative minister here.

**The CHAIR:** As you all would be aware, we have only an hour. I ask that you keep your questions short and to the point and as succinct responses as we can; that would be very much appreciated. Can I assume that all members sitting here, apart from committee members of course, have a question to ask? You are probably going to get about five minutes each I suggest at the outset, apart from Hon Steve Martin who is the shadow and I will give him an extended period. The first set of questions go to the committee and Hon Samantha Rowe.

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**Hon SAMANTHA ROWE:** My question relates to page 296 of budget paper No 2. If you go about halfway down the page, point 7, “Impacts of Climate Change”, says —

Climate change impacts, such as reduced rainfall, increased risk of wildfires, and biosecurity threats are expected to continue to affect native forests and plantations in Western Australia and need to be managed.

Minister, a lot has been said in recent media denying the impacts of climate change on native forests, and that what we are seeing is normal. Are you able to explain what the impacts have been and are predicted to be?

**Hon ALANNAH MacTIERNAN:** Although I have some knowledge, I think I will defer to Andrew.

**Mr LYON:** While forests of the south west are adapted to hot dry summers and cool wet winters, climate change impacts have been escalating and compounding for several decades. The declining rainfall and drier soils have led to chronic water stress in parts of the forest leading to reductions in vegetation, including some quite severe collapse in the northern jarrah forests we see. The climate conditions suitable for the survival and regeneration of several of our iconic species are likely to contract as rainfall continues to decline. Jarrah regrowth is predicted to decline by 50 per cent over the next 50 years under moderate and high-emission scenarios and karri regrowth is also predicted to decline. The direct and indirect impacts of climate change on the health and the vitality of the forests have contributed to decreased quality and yield of commercial sawlogs and subsequently reduced supplies to timber mills over the last several years. Vigorous regrowth of harvested forests that have high water demands is really compounding the impacts of climate change by contributing to decreased stream flows that we are seeing as well. Evidence suggests that competition for water can be reduced and forest health resilience improved by selective ecological thinning of the dense forest regrowth. That kind of silvicultural treatment is currently being assessed through the forest management plan process.

The final thing I would say on that is the Intergovernmental Panel on Climate Change of the United Nations, responsible for advancing the knowledge on human-induced climate impacts, stresses that climate change is causing dangerous and widespread disruptions to the environment and people around the world. We are seeing those impacts in Western Australia through decreased rainfall and increased wildfire events.

**Hon JACKIE JARVIS:** My question relates to page 298 and the “Asset Investment Program”, particularly relating to \$112 million on the acquisition of land to support the expansion of the softwood plantation. Is it expected that this plantation expansion program will have any impact on existing farm uses such as cropping, grazing or horticulture?

**Hon ALANNAH MacTIERNAN:** Thanks, member, for the question. I know that you have an understanding these issues as a former member of the Forest Products Commission. I always start off by saying, please, this is going to be nothing like the disruption that we saw with the introduction of blue gums when something in the order of 440 000 hectares went under blue gums. The additional areas that we are talking about here are about 35 000 hectares. During the period of the former government, there was very little expansion, yet we have had product coming off, so an element of that will be rebuilding. Growing wood for timber is an agricultural pursuit like any other, and we anticipate that there will be competition in some space. It is not going to be able to compete with canola at \$1 200 a tonne, but there will be certain sorts of lands that have crop value that is not so good and there will be more money from timber. As you are aware, member, whilst it is not quite the same as native tree growing, there are some advantages that come from having a section of your property treed with co-benefits in terms of reduction of erosion, provision of shade et cetera.

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**Hon Dr BRAD PETTITT:** I refer to the income statement on page 300 of budget paper No 2 and the revenue from operations and the sale of goods and services.

**Hon ALANNAH MacTIERNAN:** Sorry; what page is it?

**Hon Dr BRAD PETTITT:** Page 300 of budget paper No 2. What accounts for the increase in revenue between 2022–23 and 2023–24?

**Hon ALANNAH MacTIERNAN:** Would Mr de Nobrega like to answer that?

**Mr de NOBREGA:** The 2022–23 is obviously based on the yield calculations that we have done on the forests, but the 2023 to 2026, those specific years, the figures presented in the outer years are based on the 2021–22 approved budget, which includes revenue and costs from native forest harvesting. The outer year forecasts will be updated in the 2023–24 budget process once the draft FMP 2024–2033 has been realised. That is the reason why those outer years are high at the present moment.

**Hon Dr BRAD PETTITT:** Just as a follow-up, and on the other side of that equation, on the same page in terms of income statements, expenses supply and services, what accounts for the increase in spending between 2022–23 and 2023–24?

**Hon ALANNAH MacTIERNAN:** I will ask—Toni, can you answer that?

**Hon Dr BRAD PETTITT:** It is the same page; sorry, in budget paper No 2, page 300.

**Hon ALANNAH MacTIERNAN:** You are on page 300. Which line are you looking at?

**Hon Dr BRAD PETTITT:** The income statement, and Expenses: supplies and services.

**Mr de NOBREGA:** Again, that is based on variable costing of the list. As the revenue goes down, or up, then the variable costs will go in line with those sort of costs. Harvesting and haulage, which is a variable cost—as the turnover in those years that we have reflected go up, that would reflect that.

**Hon Dr BRAD PETTITT:** Can you just explain what those variable costs might include? Did you say variable costs?

**Mr de NOBREGA:** Correct.

**Hon Dr BRAD PETTITT:** What do those variable costs include?

**Mr de NOBREGA:** It would be harvest and haulage costs, and anything to do with the variable costs of the actual plantation or the forests, as such.

**Hon Dr BRAD PETTITT:** I am just trying to understand a bit around why they are going up?

**Mr de NOBREGA:** Supplies and services.

**Hon ALANNAH MacTIERNAN:** Look, I will, perhaps, throw to the general manager, Stuart.

**Mr WEST:** Thank you, chair. In this process, the budget numbers in the out years are based on the budget prior to the announcement. Your two questions—the numbers relate to growing revenue and then equivalent growing costs to do those growing revenues. In our discussions with the Department of Treasury, since the announcement to make changes to the native forestry projected revenue streams in the out years, it was not possible—based on the announcement and based on what we do not know for the future forest management plan—to model what the volumes will be. They will be different to this and the Treasury's guidance to the department was just to leave the numbers in the budget from the 2021–22 budget, and to leave them in the out years, acknowledging that they will not be accurate. They will vary once we know what the new forest management plan determines as available volume and subsequent revenue, and then expenses. They will be updated, as Mr De Nobrega said just a moment ago, so when the 2024 forest management plan is released,

just prior to 2024, in the 2023–2024 budget process we will then have that information to be able to model what the revenues will be and what the expenses are. Whilst they are indicative, they are just numbers from the last approved budget, and I appreciate they are probably unhelpful. Without using those you would have to have made a guess about the forest management plan and we are just unable to do that.

**Hon NICK GOIRAN:** Further to this line of questioning—the witness indicates that these things are indicative but really, in light of this information, it is indicative of nothing because what you are effectively telling us is that the out year data here on page 300 of the budget is worthless; there is no point of us looking at it at all. On what basis was the information derived that is here on page 300, in respect to the upcoming budget year, the 2022–23 period. In other words, does that information reflect the announcement?

**Hon ALANNAH MacTIERNAN:** I understand the difficulty but the agency has operated on Treasury advice. I can certainly take this forward to the minister, whether or not this is something that might be amended in the midyear review. Obviously, we will not really know what the figures are until we have the new forest management plan, and only then, when we have determined the ecological thinning rate. The advice to the agency was, at the moment, to keep it in because we do not actually have clarity on what the costs are going to be with the new regime.

**Hon NICK GOIRAN:** That I understand, minister.

**Hon ALANNAH MacTIERNAN:** We do actually understand the difficulty.

**Hon NICK GOIRAN:** I do understand that; that was sufficiently explained previously. I am not going to be critical of this agency if they have taken the advice of Treasury. I really wish that the next session was Treasury because I would like to get to the bottom of why on earth they would provide that advice, effectively to mislead people, with respect to the out years. My question is not really in regards to that because that has been satisfied—well, it has been explained. Treasury needs to be accountable for that.

My question is, how did we come up with the information for the upcoming budget year? Is that based upon the announcement?

**Hon ALANNAH MacTIERNAN:** Do you mean in the upcoming budget?

**Hon NICK GOIRAN:** Yes, the 2022–23 period.

**Mr LYON:** The year that you are talking about is because it is based on the current forest management plan. The current forest management plan runs until December 2023. We are able because we know the parameters in which we are working and the limitations—we know the amount of hectares that we could then effectively go into. We can budget and it has been budgeted until December 2023, under the current forest management plan.

**Hon NICK GOIRAN:** Right; that is helpful information. In other words, the first half of the financial year in 2023—we know what to expect there.

**Mr LYON:** That is correct.

**Hon NICK GOIRAN:** It is the second half of that financial year that we need to wait for the plan.

**The CHAIR:** Just before you go on, can I just confirm that it was based on the advice from Treasury?

**Mr LYON:** Yes.

**Hon ALANNAH MacTIERNAN:** It was the advice on the basis—as Andy has said, we know what the situation is at the moment, to the end of 2023, because that is when the forest management plan continues. Until then, notwithstanding our announcement. After then, because we do not know

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what the regime will be, we do not know what the rate of ecological thinning will be, et cetera, it is hard to calculate either the costs of goods or services. The advice had been just to, as I understand it, continue on the existing path and that will have to be rectified in subsequent budgets.

**Hon NICK GOIRAN:** I understand that, minister, but what is still unclear is if we are using—what the witnesses are telling us is that, for the time being, everyone has been relying on the existing plan, and in the fullness of time there will be a new plan and then there will be an update to the figures. That being so, why do the figures in the upcoming budget year, for that line-item—sale of goods and services—decrease to \$117 million? If we are using the existing plan, the budget, previously, was \$134 million. I appreciate the estimated actual is \$122 million but we are now decreasing it to \$117 million based on existing plan, and based on the existing plan, in the first out years we suddenly rocket up \$151 million. What explains that differential?

**Hon ALANNAH MacTIERNAN:** Okay. Well, the advice I have been given here is the decrease in revenue between the estimated actual and the 2023 budget year is largely due to the decrease in native forest timber, due to the declining yield of sawlogs in jarrah coupes and capacity constraints being faced over the two years. Plantation sales have reduced due to reduced sales in biomass; sandalwood has increased. Now, I think I will—the figures presented in the out year are based on the 2021–22 approved budget.

**Hon NICK GOIRAN:** That is ridiculous; that is the point there. Somebody has decided to put \$151 million as the sale of goods and services in 2023–24 based on what you are saying the 2021–22 budget of \$134 million, even though the estimate is we are not going to achieve that in this current financial year and we are not even budgeting it for the next year. I really do question—I do not know if this is then a problem for this department or the Treasurer—

**Hon ALANNAH MacTIERNAN:** I understand the question; I will ask Mr West, if you have an answer for that. Why did the figure go up given this seems to be a systemic issue here, with the decline of availability of logs? What has caused the increase from \$117 million \$151 million.

**Mr WEST:** Thank you. The numbers for the out years, from 2023 onwards, are the numbers from the last budget process—from the last modelling. The numbers before 2023–24 reflect our actual activity. Our actual activities are deteriorating worse than the previous budget, hence the remodelling and the reduction in the modelling.

But then, when it gets to the 2023–24 out years, it is based on the previous model. It appears to be a modelled increase, but it is actually modelled as business as usual from the last budget.

We discussed the rationale with Treasury. The end of the forest management plan in December 2023 is transformational. Ten years ago, in 2013–14, the 10-year plan was pretty well business as usual and so the budget process would have said, “Look, it is pretty straightforward.” I was not here, but it would have been modelled on that. The current situation is transformational. We do not know the area. The volume is area based, and we do not know the area that is going to be in the next forest management plan. It may be similar, or it may be significantly more or significantly less. The Department of Treasury’s guidance was: “We know it is transformational. This is unusual. It is not like the same time 10 years ago.” At least if you use the existing modelling for those out years there is an explanation for that, knowing that in the next budget process they will be accurate.

**Hon STEVE MARTIN:** Minister, regardless of that explanation, it does throw into question the rigour behind the budget process. To suggest that it is somehow based on modelling at any stage over the recent past is ludicrous—to take it up to \$151 million in 2023–24. So that does throw some real issues around this, especially for the out years. We have gone through one line item. I assume there

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are dozens of line items that are similarly flawed. Could we perhaps put it on notice to get an update to this process?

**The CHAIR:** Are you asking a question?

**Hon STEVE MARTIN:** I am not quite sure how to frame it. Two previous members have dealt with one line item, and we have heard the process behind the \$151 million figure. I assume there are dozens of similar line items where we should not put too much faith in those out years. That is the question.

**The CHAIR:** Just to clarify, perhaps we could reframe the question to: how many line items are affected by the change from the previous budget? Can you provide that information, minister?

**Hon ALANNAH MacTIERNAN:** On this point you have made your case. I understand what you are saying. The FPC has given their explanation as to why they put it. I understand that it looks unusual. It will be corrected in the next budget.

**Hon STEVE MARTIN:** I have a quick follow-up to an earlier response from the FPC to the climate change question from Hon Jackie Jarvis. It mentioned that climate change was one of the reasons there has been a reduced supply to mills. It is my understanding that the forest management plan is not a hectares-based plan but a cubic metres number. If climate change—not if; I will take your expert opinion. The yield has dropped. Why would you not simply harvest more?

**Hon ALANNAH MacTIERNAN:** Because there are rules about sustainability and the frequency with which you can harvest. The forest needs to be given a certain amount of time to regenerate.

**Mr LYON:** Your question there—that is exactly what the FPC has struggled with doing.

**Hon STEVE MARTIN:** Would you speak a little louder, please.

**Mr LYON:** That is what the FPC has been doing. When we have declining yields of sawlog per hectare, it actually means that we need to harvest more hectares to get the same amount of sawlog as we got in previous years from less hectares. That means it takes more time, more planning and more fixed costs before you can get the same revenue back. That climate change effect, in that you have decreased yield of sawlog per hectare, is what we are talking about. In a lot of it, it is not decreased total volume per hectare; it is decreased sawlog volume and increased biomass that is coming off. You actually have a change in the mix that is coming off. It can take contractors more work to get the same amount of sawlog, so it becomes a slower process as well.

**Hon STEVE MARTIN:** That does slightly conflict with what the minister said about there being limits to what you can harvest. Your answer is you can harvest to get the cubic metres?

**Mr LYON:** There are limits to our harvest through the FMP. There are sustained yield limits, and there are limits in our pure ability to plan and have coupes available to go into. If you are not getting the yield per hectare, you have to have more coupes to go into.

**Hon STEVE MARTIN:** Have you hit those sustainability limits?

**Mr LYON:** They are through the FMP. The forest management plan gives us the sustained yield each year.

**Hon STEVE MARTIN:** Yes. Have you hit those sustainable limits?

**Mr LYON:** No.

**Hon STEVE MARTIN:** I will go to a question about the new softwood plantation plantings. The minister mentioned that 6 000 hectares had been planted during this term of government. What is the annual harvest of the softwood estate in Western Australia?

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**Hon ALANNAH MacTIERNAN:** We do not have the harvest figures, but we will provide them by way of supplementary information.

[*Supplementary Information No B1.*]

**Hon STEVE MARTIN:** Could we also have—I assume you will not have it today—the number of hectares that have been either burnt or otherwise lost since this government came to office?

**Hon ALANNAH MacTIERNAN:** We will take that —

**The CHAIR:** That will be incorporated into B1.

**Hon STEVE MARTIN:** On a similar topic, minister, do the plantings since 2017 include the amounts agreed to in the state agreements—the Wesbeam agreement, which is the wood processing agreement, and the WESFI agreement, which outlines that \$1 million will be spent for the planting of supply. Is that included in those numbers?

**Hon ALANNAH MacTIERNAN:** No, it is not. That is planted separately. I am advised that it is within the state agreement that they could do it, but they have not done it. So the planting figures, which I presume you have, are just the FPC.

**Hon STEVE MARTIN:** Just to clarify, minister, you are suggesting that the state agreement says they could spend \$1 million a year but they do not have to?

**Mr LYON:** It is in the state agreement that Wesbeam has the option of investing in there. It is not something that is a requirement for them to do, but they can do it.

**Hon STEVE MARTIN:** Has it ever been required? Has it ever been done?

**Mr LYON:** Not to my knowledge.

**Hon ALANNAH MacTIERNAN:** Just to clarify, the state agreement comes under the Department of Jobs, Tourism, Science and Innovation, so questions would have to be directed to Minister Cook, who administers state agreements.

**Hon STEVE MARTIN:** I will move on to the figure, which has also been mentioned, of 35 000 hectares for the planting of the softwood plantation. I have asked this a number of times, attempting to get a price per hectare that you intend to pay, without much success. I understand there are commercial-in-confidence arrangements. You have suggested that ownership is more important than sharefarming because of the second planting et cetera. I would still like some background about how you intend to get 35 000 hectares over 10 years out of the \$350 million. You must have done some modelling, and, if you are talking 600-plus millilitres of rainfall, that number appears to be wildly unrealistic.

[2.30 pm]

**Hon ALANNAH MacTIERNAN:** They have a sense of how much they can afford to pay and they will be in the market looking for things within that price. They still have to be commercial.

**Hon STEVE MARTIN:** I assume that you are actually assessing purchases for the coming financial year.

**Hon ALANNAH MacTIERNAN:** I think we mentioned this when we were dealing with the FPC bill the other day when you were away on urgent parliamentary business. We obviously have been having some preliminary discussions, but we needed to get that legislation through and assented to before proper negotiations could be entered into because there was a question mark about their power. As we indicated in the Parliament during that debate, they are discussing various options with various owners, but no-one would telegraph exactly what they were and the costs that they were putting on the table.

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**Hon STEVE MARTIN:** Page 297 talks about thinning schedules to date. For the achievement of thinning schedules for softwood plantations, the estimated actual is 75 per cent, and it talks about suitable markets for products. Can I just have a little bit more background about why that number is low? Are you developing suitable markets? Is that your task?

**Hon ALANNAH MacTIERNAN:** This is page 297?

**Hon STEVE MARTIN:** Page 297 and the outcomes and key performance indicators. It talks about the achievement of thinning schedules for softwood plantations. The estimated actual for 2021–22 is 75 per cent, and there is a note that talks about delays in developing suitable markets for products. I am wondering if I can have a bit more background about that. Is that, in fact, your task—to develop markets?

**Mr LYON:** In some of the thinning that we have had to do, there have been restricted markets for some of those thinnings, so that has just limited our ability to go in and do it. There is a window of opportunity for when you can go in to do it, so we have simply not done it while we have not had that market there. As we have also said recently, that has actually recently changed. There are active markets for it now and we are picking up that thinning rate.

**Hon Dr STEVE THOMAS:** Minister, I take you to page 296 of budget paper No 2, volume 1. The top of the page is native forest impacts and points 1 and 2 are the decision and then what the new management plan will be based on. It is on ecological thinnings and harvesting for improved mining operations. My understanding is there are several hundred hectares harvested for mining operations at the moment per annum. Can you just give us a number and the amount of timber in terms of both sawlog and the rest—thinnings, for example—that are taken from those mining operations on average per year? By supplementary information if needs be.

**Hon ALANNAH MacTIERNAN:** Let us see if we have got the information.

**Mr LYON:** The first part of it you asked how many hectares. It varies between 800 to 1 000 a year.

**Hon Dr STEVE THOMAS:** How much of both sawlog and residual is coming out under that process?

**Mr LYON:** On a per hectare basis?

**Hon Dr STEVE THOMAS:** On a per annum basis.

**Mr LYON:** On a per annum basis?

**Hon Dr STEVE THOMAS:** Yes. How much are you getting out of that 800 to 1 000 hectares every year?

**Mr LYON:** We would have those figures. I do not have them with me.

**Hon Dr STEVE THOMAS:** Can they be provided as supplementary information?

**Mr LYON:** Yes.

*[Supplementary Information No B2.]*

**Hon Dr STEVE THOMAS:** I turn to ecological thinnings. Currently, there is some thinning of state forest that does occur. We could argue how much. Again, it will probably be by supplementary information. What level of ecological thinnings in terms of total volume currently occurs?

**Hon ALANNAH MacTIERNAN:** At the moment, there is not a harvest plan that comes under the rubric of ecological thinning. Ecological thinning, in a sense, happens as part of the process of getting the sawlogs out. DBCA are currently working on the definition of ecological thinning in the sense of determining what volumes must be taken to keep the forest in a healthy state to allow growth. In a

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sense, it is not something you need to do if you are harvest managing; it is something you need to do if you are not harvest managing.

**Hon Dr STEVE THOMAS:** That is really important. Can I confirm that what you are saying is there has been no ecological thinning because thinning has occurred through the forest harvest process and ecological thinning will then be a new process?

**Hon ALANNAH MacTIERNAN:** That is right. You might say at one level that there has been ecological thinning, but it has been done through a harvesting program, so it has not been labelled ecological thinning. Now that we are not harvesting in a commercial sense, and the difference is one is driven by a feeding of an industry and the other goes in the other direction, the rationale and the organising principle is what is needed to maximise the health of the forest. So they are approached from different angles.

**Hon Dr STEVE THOMAS:** I have seen estimates of 50 000 to 60 000 cubic metres combined for both of those—ecological thinnings and harvesting for mineral extraction. Is that anything like a current estimate, and how do you measure what you are going to be doing in terms of ecological thinnings if you have never done it before under the circumstances you propose?

**Hon ALANNAH MacTIERNAN:** This is work that is in progress. This is what is happening now under the development of the next forest management plan that will come into play in 2024. This is the very detailed work that is going on. Work is being done at the moment trialling new machinery, much smaller machinery, and seeing how efficient and effective that is, because if you are coming in and taking out smaller trees rather than sawlogs, you need a different style of equipment. A lot of work is being done by the commission at the moment to get to understand how you would most effectively deal with this and what will be the cost of doing that.

**Hon Dr BRIAN WALKER:** I do appreciate the work that the Forest Products Commission is doing. I had a very nice briefing from them just recently. I am pointing to page 296, looking in particular at “Impacts of Climate Change” at point 7 and going back up to point 5, “Plantations”. I was listening very closely to the earlier contributions. There are two parts to this question. First of all is a question regarding carbon capture, which we have spoken about before. What I learnt from the briefing, and I do not see reflected here, is a difficulty in actually calculating carbon capture not just from the growing tree, but also the tree once it is actually incorporated into buildings. It does not seem to be reflected in the financial performance. That might be worth a comment.

[2.40 pm]

**Hon ALANNAH MacTIERNAN:** So you are asking what happens once the tree is harvested?

**Hon Dr BRIAN WALKER:** Indeed, that is lost to the accounting as far as I am aware. That might be something that we can look at as a financial improvement. The second thing—this is like a broken record, minister; you will forgive me, I am sure—is hemp. I know it is being studied and I know that it is actually on the horizon but as it grows four times faster than trees—a lot faster than trees—and as a country it is about 22 tonnes of carbon per hectare. As it associated with being able to improve the topsoil and improve, in fact, the flow of rivers once you plant that in a sustainable environment, would we not be better off looking more closely at hemp in the future rather than relying on trees for building because we do know that hemp itself can be very useful in the building industry as a wood substitute, apart from hempcrete, of course? Would these not be available valuable things to look at in the Forest Products Commission?

**Hon ALANNAH MacTIERNAN:** Given current techniques, there is clearly a big need for timber in construction and the Forest Products Commission’s job really to providing fundamentally timber and now it will be mainly for the construction industry. That is the job. I guess it is probably not

necessarily the Forest Products Commission's job to look at "Do we need trees?" I agree that there are a variety of other products, including hemp-based products, that could be used to substitute for wood, but I do think we will be needing wood and I think even those hempcrete houses, if I remember rightly, there are wooden rafters and wooden door frames so you will still be needing wood even for those. That is their job. The Forest Products Commission's job is growing timber. I think it will be needed even if we get a vibrant hempcrete industry. Obviously, we are using methodologies that have been developed in terms of carbon capture and storage that have been developed by the Clean Energy Regulator. These methodologies are not some of those that have been questioned recently. I do not think there is any controversy about the carbon accumulation mechanism that has been used. Andy, did you want to add to that?

**Mr LYON:** You are correct. Under the methodologies, once a tree is harvested, it is accounted for as an emission to the environment even though it can then be turned into timber and go into house construction for, I think, we deem that for 90 years if my memory is correct, but it is not accounted for —

**Hon ALANNAH MacTIERNAN:** A second time; there is no double dipping.

**Mr LYON:** Yes. As soon as you cut a tree down, it is taken as an emission even though you have got harvested wood product that goes into houses. It is something that they are looking at. I know at the national level they are looking at being able to account for that in service use time, but it is very complex and so far nobody has come up with a very stable way of accounting for it.

**Hon JAMES HAYWARD:** I refer to page 300 as well. I want to pick up on some points that were spoken about previously. I remember at the previous hearings we had about six months ago, I asked a question in relation to the profitability of the hardwood take and I was told that not only was it getting more difficult to get the hardwood resource but that there was no money in it—in fact, that it created a loss. I asked a specific question, "Was there a line to Treasury?" and it was explained to me, no, those costs were internal, but hardwood was a drain on the organisation and the others did better. I guess my question is: are we expecting to see better financial performance given that hardwood is coming off given that background; and, if so, have you done any modelling at all on what that might look like into the future? I know that you say that the forest management plan will guide that, but surely you guys are part of that process and have some idea. There must be some work that has been done in that space.

**Hon ALANNAH MacTIERNAN:** On the price of hardwood?

**Hon JAMES HAYWARD:** On what the organisation is going to like post-hardwood timber.

**Hon ALANNAH MacTIERNAN:** Stuart, would you like to address that?

**Mr WEST:** We are looking at that now. It is really quite a challenge. Because this is quite a significant change, we are waiting on the forest management plan to determine the impact on our business. The answer to your first question is yes, we are removing an activity that is a draw on our overall performance—we are strongly optimistic that we will have a better overall performance—and then the question is: what are the recourses required, what is the task for native forestry and what is the financial model around that? For example, if DBCA or any part of government were to require us to do some native forest activities and they are cost recovered or cost plus—I do not know—20 per cent or something, then that would add to the bottom line. I do not know what the model is and we are still trying to determine the impact on our business. A key timing of that, DBCA, recognising that is not this portfolio, has indicated publicly that the draft forest management plan will be out this calendar year. We are really waiting on that to determine what the future shape of our business is.

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We have got lots of internal deliberations around what we need to think about, but we have not actually been able to land it until we get that guiding information.

**Hon JAMES HAYWARD:** Earlier you were talking a bit about trialling new equipment to potentially use for thinning. There is a bit of that work being done, but that is obviously a very, very different model compared to what has been existing. The question I have is: given that the decline of the native timber industry in terms of private enterprise getting out of that in a big way because of the end coming, are you confident that there are going to be workers available and the know-how to be able to run those operations into the future given the demise of our timber industry?

**Hon ALANNAH MacTIERNAN:** Sorry, workers able to do what?

**Hon JAMES HAYWARD:** If we talk about the thinning, for instance, that is a completely different model to what we are running at the moment, which we would agree on. We have a situation where private business has gone and set up and they have spent a lot of money building mills and getting the process right for the current situation—that is all out the door. We are going to a different model and the question I am asking is, you know, those people have been potentially a bit burnt because this has not worked out. Do we really think that there is going to be the private industry interest and the people available to be able to take up this new thinning role?

**Hon ALANNAH MacTIERNAN:** What we do know is that people in Western Australia are very entrepreneurial so when a new ecological thinning model has been revealed, it will be a 10-year plan, and that creates an opportunity for people to see a new business opportunity in contracting to do the ecological thinning and make use of the ecological thinnings. I think it is particularly important that it is a 10-year period; that is a reasonable time frame for people to gear up to get a return on some investment in some equipment. We do not see that the past experiences—there have always been people that will do it. We see that people in the pine sector and the blue gum sector where the opportunities are diminishing will actually have an increase in that area.

**Hon JAMES HAYWARD:** I have a quick question on firewood. Obviously, the cost of living is going up and people in the south west do not have access to natural gas, particularly in the lower south west areas, and accessing firewood is very important as part of their heating and overall costs. Are you confident there will be enough firewood to maintain a supply that is affordable for people who need to heat their families and houses?

**Hon ALANNAH MacTIERNAN:** We are certainly hoping that is the case, and there is certainly strong demand for that. Obviously, we do not want people burning green firewood. This year we have had a problem in that part of the jarrah take in the availability of people, because everyone has the same problem. We are working on those figures. I have some tonnages here.

**The CHAIR:** You are going to have to hurry, minister.

**Hon ALANNAH MacTIERNAN:** I am happy to provide a table of tonnages by way of supplementary information.

*[Supplementary Information No B3.]*

**Hon Dr SALLY TALBOT:** My question relates to page 298, item 1, under the asset investment program. I am particularly interested in 1.1, which reads —

The Commission will spend \$112.9 million over 2022–23 to 2025–26 on the acquisition of land to support the expansion of its softwood plantation estate.

I would like you to explain to members how that expenditure is used to generate carbon credits.

**Hon ALANNAH MacTIERNAN:** As I think we talked about, the FPC will fundamentally be accumulating credits, principally Australian carbon credit units, although I do understand you may

also be potentially looking at some external credits. They will be planting trees, acquiring carbon credit from those. Perhaps Andy would like to add to that.

**Mr LYON:** Primarily, for plantations, we can use farm forestry methodology and the new plantation methodology that allows us to sequester carbon through the growth of trees over a 25-year period. There is an accounting period over five years and then you can accumulate and you get the carbon credits, and that is over a 20-year period, and 25-year permanency.

**Hon STEVE MARTIN:** Just a follow-up on the loss that you said the hardwood sector has on the FPC's books. Is there an ability for the FPC under the forest management plan to simply charge more for a very scarce and valuable resource?

**Hon ALANNAH MacTIERNAN:** I will ask Mr West to deal with that.

**Mr WEST:** Effectively, we are in the market place, so it really is subject to the customer's ability to pay. We can tender for the sale of products and we cannot accept responses, it is not quite a perishable product but we cannot be in the situation where we are cutting down a tree and we have active markets for the bottom two-thirds and not the top one-third. You have got to accept the market price to some degree at the time. We have competitive tendering and we accept the highest price. The market in the lower range products is quite price sensitive, so they do not quite have the ability to pay, so we could easily set a high price and have no offers and not sell any products. Our commercial balance is balancing supply and demand with existing or potential new markets. We can always seek a higher price. If a customer or tenderer does not respond to that price benchmark, the risk is selling nothing versus selling at a lower price.

**Hon STEVE MARTIN:** Roughly, what percentage price rise have you seen in the last 12 months?

**Mr LYON:** There have not been any obvious tenders where we have actually received new prices in the last 12 months. They will be on existing tenders that might have incremental or CPI-based price increases or the like, but for the last 12 months there has not been any obvious tendering to test a new market.

**Hon STEVE MARTIN:** So you would be the only product in the world in the last 12 months that has not seen CPI price rises? Our very valuable jarrah, for example, has seen a CPI price rise in the past 12 months?

**Mr WEST:** Whatever the contract says. Off memory, I am pretty confident —

**Hon ALANNAH MacTIERNAN:** When would the contracts have been entered into? That was some time ago.

**Mr LYON:** These contracts, especially for higher value sawlogs, because of the investment required, they get 10-year contracts. When we entered into them at the start of the forest management plan in 2014, there was an obvious level of investment a company has to make at that time, and that is compensated by the fact we give a 10-year contract for that. The products that we can go out and tender on are generally the residue products that are sort of like not —

**Hon ALANNAH MacTIERNAN:** They are not the high value products.

**Mr LYON:** They are not the high value products and we do not go into the longer term contracts, because the investment is not so much.

**Hon ALANNAH MacTIERNAN:** You would not expect a great inflation because the good quality logs have been subject to 10-year contracts —

**Mr LYON:** Correct.

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**Hon ALANNAH MacTIERNAN:** — determined in a rather sessionary environment. You probably had CPI built into the costs, which would have seemed back in 2014, more than reasonable, and still is reasonable, the CPI.

**Hon STEVE MARTIN:** Looking at the coming forest management plan and the mine clearing timber. I understand the permit process for mine clearing is a different mechanism but will the timber that is harvested form part of the new forest management plan?

**Hon ALANNAH MacTIERNAN:** Yes, it will.

**Hon STEVE MARTIN:** The minister in the Legislative Assembly estimates process mentioned, for example, that Simcoa would be able to tender for some or all of that time, I assume like any other purchaser of that product. Given they would be uncertain about the numbers of tonnes available, let us take an example. Hypothetically, could Simcoa purchase all of it?

**Hon ALANNAH MacTIERNAN:** Obviously, the Simcoa process really uses low quality volumes, so in the mine clearing there will be a lot of high grade logs that are cleared. It certainly would not be our intention that the sawlogs go to Simcoa. Simcoa has never used sawlogs; they have always used forest residues, but they could certainly be in there competing for a very high percentage of that lower grade non-sawlog material.

**Hon STEVE MARTIN:** It is a competitive process, for example, if Simcoa were bidding against the firewood people for, I assume, a similar process and Simcoa bought it all, there would be nothing left for the firewood sector.

**Hon ALANNAH MacTIERNAN:** The allocation process is going to be determined in the development of the forest management plan. They will be talking about whether or not there are reservations for particular uses. These will be policy matters that will need to be determined. FPC's role is simply to respond and work within the parameters set by the forest management plan. Presumably, one of the things that will be determined under the forest management plan is exactly how allocations are to be made.

**The CHAIR:** Thank you very much. I thank everyone for your attendance today, particularly the witnesses. Members, you may lodge your remaining questions through the electronic lodgement system, which will close at 5.00 pm on 1 July 2022. Witnesses, the committee will forward the uncorrected transcript of evidence with questions taken on notice highlighted as soon as possible after the hearing. Responses to questions on notice are due by 5.00 pm on 20 July 2022. Should you be unable to meet the due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. Thank you very much for your attendance today. It is appreciated.

**Hearing concluded at 3.00 pm**

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