

**SUBCOMMITTEE OF THE STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**2012–13 BUDGET ESTIMATES HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 6 AUGUST 2012**

**SESSION TWO  
FOREST PRODUCTS COMMISSION**

**Members**

**Hon Giz Watson (Chair)  
Hon Philip Gardiner  
Hon Ljiljanna Ravlich**

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**Hearing commenced at 4.23 pm**

**Hon ROBYN McSWEENEY**

**Minister for Child Protection, representing the Minister for Forestry, examined:**

**Mr DAVID HARTLEY**

**General Manager, sworn and examined:**

**Ms LINDA KUT**

**Chief Finance Officer, sworn and examined:**

**Mr JOHN TREDINNICK**

**Director, Forest Operations, sworn and examined:**

**The CHAIR:** On behalf of the Standing Committee on Estimates and Financial Operations, welcome to the hearing this afternoon. Before we begin, I am required to ask the public servants to take an oath or an affirmation.

[Witnesses took the oath or affirmation.]

**The CHAIR:** You will have all signed a document entitled “Information for Witnesses”. Have you read and understood this document?

**The Witnesses:** Yes.

**The CHAIR:** The hearing this afternoon is being held in public although there is discretion available to the committee to take evidence in private either of its own motion or at the request of a witness. If for some reason you wish to make a confidential statement during the proceedings, if you could request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty to assist the Parliament in scrutinising the budget papers on behalf of the people of Western Australia and we appreciate your assistance this afternoon. The proceedings are being recorded by Hansard and a copy of the transcript will be provided to you. Members, it would assist Hansard if you could please refer to the *Budget Statements* volumes or the consolidated account estimates by page number, item and program in preface to your question. If supplementary information is to be provided, I ask your cooperation in ensuring that this information is provided within 10 working days of receipt. Should you be unable to meet this deadline, could you please advise the committee clerk immediately? The committee reminds agency representatives to keep your responses to questions succinct and to limit the extent of personal observations.

**Hon SALLY TALBOT:** Your budget page is very, very brief. You clearly believe that brief is best to assist other committee members who may not be quite aware of your status. Could you outline why we have only got half a page in the budget papers relating to the agency?

**Mr Hartley:** The Forest Products Commission is a government trading enterprise that was established under the Forest Products Act 2000 and as a government trading enterprise it manages the state’s forest assets, sandalwood, native forest and plantation timber, and largely operates on the funding that is generated from the sale of those products. So, the actual consolidated revenue allocations made to the Forest Products Commission are very minor and hence there are only three references in the budget papers to Forest Products Commission funding because it is a government trading enterprise rather than being a normal government agency that relies on consolidated funding for its operation.

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**Hon SALLY TALBOT:** I imagine like all other GTEs your statement of corporate intent is one of your key documents.

**Mr Hartley:** Yes.

**Hon SALLY TALBOT:** So we have an SCI 2011–12 which presumably now is out of date. Is there a new one?

**Mr Hartley:** Yes, we are in the process of developing a new one and that is going through processes with our minister and with Treasury. It was due to be tabled in Parliament before 30 June but because of Treasury's quite late decision to include some dividend payments, that has to be redone and the numbers recalculated. So it is going through that process at the moment of getting approval through the minister's office and the concurrence of the Treasurer and then it will be tabled.

**Hon SALLY TALBOT:** Are you not legally required under your act to submit a current SCI by the end of the financial year?

**Mr Hartley:** Yes, we are.

**Hon SALLY TALBOT:** So you have not complied with the act?

**Mr Hartley:** I have just explained why we did not. We were running on time and we did have concurrence but because of the late decision to impose a dividend, not just on government agencies but also on government trading enterprises, we were required to go back through the process of redoing the figures to include the dividend that was required by Treasury.

**Hon SALLY TALBOT:** When do you expect to table the current SCI?

**Mr Hartley:** I cannot answer that. It will depend on when we get the Treasurer's concurrence and the minister will then be in a position to table that in Parliament.

**Hon SALLY TALBOT:** If we can just dig into that in a little more detail, is it the three per cent cuts or is it more than that?

**Mr Hartley:** It is 2.5 per cent.

**Hon SALLY TALBOT:** For what, 2012–13 and then the out years?

**Ms Kut:** It is one per cent, one per cent and one per cent for the out years.

**Hon SALLY TALBOT:** Right. So, are you telling us that you are waiting until you have got those savings locked into place before you establish the SCI?

[4.30 pm]

**Mr Hartley:** No, we are required under our legislation to get the approval of the minister and the minister is required to get the concurrence of the Treasurer.

**Hon SALLY TALBOT:** You are just waiting for the concurrence of the Treasurer?

**Mr Hartley:** That is exactly right.

**Hon SALLY TALBOT:** Well, according to my records, the previous SCI that has just run out was signed off by the Treasurer on 5 July 2011, so can you give us an idea of why it is taking so long?

**Hon ROBYN McSWEENEY:** I think he explained himself very well.

**Hon SALLY TALBOT:** Is it because it is more complicated than usual? I mean, this must be an unusual situation, or it should be an unusual situation, for a GTE to be operating without a statement of corporate intent, particularly for an agency—if I may, with the greatest respect—that has had a relatively troubled history in terms of its financial operation.

**Mr Hartley:** Yes, we have had a troubled history and that troubled history goes back something like 10 years, but a significant turnaround in that troubled history has occurred in basically the last

three years. We have gone from being an extremely troubled organisation to a major restructure. We now have our finances back on track and we are now generating an operating profit that was not done very often in the years prior to that.

**Hon ROBYN McSWEENEY:** Under a very good Liberal government, I might add.

**Hon SALLY TALBOT:** But you are saying that a one per cent dividend for this year has meant that we do not have a statement of corporate intent and you do not know when —

**Mr Hartley:** I can only repeat that we are required to submit it to the minister, which we did on time, then a decision was made by the Treasurer that some additional savings were required. Those savings were made and it was resubmitted and it is now going through the process, as I imagine most other government trading enterprises are as well, of getting Treasurer's concurrence. When that concurrence is received it can then be tabled. But it would be wrong of us and we would not be allowed to submit or make public that document until it does have the Treasurer's concurrence. So, we are complying with our regulations.

**Hon SALLY TALBOT:** Now this may be a shortcoming in my record keeping, but am I right in saying there was no SCI between 2008–09 and 2011–12, 2011–12 being the current document that has just expired?

**Mr Hartley:** No SCI?

**Hon SALLY TALBOT:** Statement of corporate intent.

**Mr Hartley:** I believe that was the case. I have only been the general manager there for two years and I can say in my time, yes, there has been an SCI and an SDP, but in the periods prior to that, I believe in the 12-month period before I took over there was not an SCI submitted.

**Hon SALLY TALBOT:** So between 2008–09—the next one was 2011–12?

**Mr Hartley:** No, my understanding is there was one in 2010–11. There was definitely one submitted in 2010–11. It was late but it was submitted in 2010–11.

**Hon SALLY TALBOT:** Could I put that as a supplementary question, because that one is not available on the website? If we could have a copy of the SCI for 2010–11.

*[Supplementary Information No B1.]*

**Hon SALLY TALBOT:** Can you take us through the operating profit, loss, expenditure for what will be in the next SCI you are projecting for the next year so we can get a feel for where the Forest Products Commission is at?

**Hon ROBYN McSWEENEY:** That is in the next year's budget. To be very fair, we are looking at this budget. That is what we are here for. That is what you are looking at—this budget.

**Hon SALLY TALBOT:** Okay. The problem is that we have—this is a regular occurrence, as you would well know. You will have read the estimates transcripts from earlier years. We have an annual report and we have an SCI, and that is where we are directed to go for the detailed information we will get for other agencies in the budget papers. But because we do not have an SCI, we have not actually got that data, so I am wondering whether you can share that with the committee. Presumably, you have that data. That is not subject to any sort of —

**Hon ROBYN McSWEENEY:** Why would you do that when the minister has not tabled it, when you clearly heard the director say—and I am not being obtuse here or trying to hide anything, but before a minister tables a document, is it not pretty rare to ask for something that is not in this budget and has not been tabled yet?

**Hon SALLY TALBOT:** We are now at August 2012. The latest information we can refer to is the annual report, which was 2010–11, or the statement of corporate intent that ran out two months ago. So I guess that I am asking if you can give us a snapshot of where the commission is now in terms

of operating profit. I will tell you that what I am looking for is this: we know that in 2011 and 2012 we were looking at an income from the native timber industry of about \$100 million—\$100.2 million, I think—and that was —

**Mr Hartley:** Not from the native timber industry. Is that what you are quoting in total?

**Hon SALLY TALBOT:** Yes. I am sorry; 33.5 was the native forest component. So we are looking at a total of \$100.2 million. Are you able to give us a current figure for that?

**Mr Hartley:** The current figure in total revenue is \$107 450 000—yes, that is the 2011–12 year.

**Hon SALLY TALBOT:** That is great. Okay. What is the native forest component of that?

**Mr Hartley:** The native forest component is \$35.1 million.

**Hon SALLY TALBOT:** Yes. Mature plantation?

**Mr Hartley:** It is \$55.7 million.

**Hon SALLY TALBOT:** And sandalwood?

**Mr Hartley:** It is \$16.6 million.

**Hon SALLY TALBOT:** The same as last year. So can you give us now the forecast for 2012–13 and can you break it down into those components for us?

**Mr Hartley:** Yes. Look, this year the operating profit for native forests was \$1.9 million. That is projected to be —

**Hon SALLY TALBOT:** Sorry; that was from native forests?

**Mr Hartley:** Yes. That was the operating profit. The total revenue for next year for the forests is expected to be \$39.5 million. The projected operating profit for that is expected to be \$4.4 million. Would you like me to go on to —

**Hon SALLY TALBOT:** Yes, I would, but before you do that, have you got a document that you could table for us there? I am not looking for any other information, but —

**Mr Hartley:** Yes. We could table this information here. Where did this —

**Ms Kut:** These are extracts of the SCI, 2012–13, which has not been tabled yet. So these are our estimates for the next SCI.

**Hon ROBYN McSWEENEY:** You could put it on notice and we will give it to you.

**The CHAIR:** Minister, considering that we are actually operating in breach of the act, I do not think it is unreasonable to ask for a bit more detail.

**Hon ROBYN McSWEENEY:** You would get it if you put it on notice.

**The CHAIR:** That has been offered now.

**Hon SALLY TALBOT:** I do want to make it clear. I am only asking for those figures that your officer is sharing with us, but just in a form where we can actually look at them rather than try to write them down.

**Mr Hartley:** We can supply those figures—just those revenue figures. Is that what you want, the projected figures? The qualification, of course, is that these are not approved. We do not have, as we are required to have, the concurrence of the Treasurer or the minister's formal approval.

**Hon SALLY TALBOT:** What I was looking for was forecast sales for 2012–13, broken down into the three components, and then I was also looking for year-to-date revenue figures, which I guess, seeing we are now in August, the year-to-date revenue figures or the revenue figures for the period for which the last SCI applies; so that is 2011–12.

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**Mr Hartley:** Okay. I can give you the mature plantations: projected revenue is \$51 million, and arid forests is the same as last year at \$16.6 million.

**Hon SALLY TALBOT:** Yes.

**The CHAIR:** That is the sandalwood.

**Hon SALLY TALBOT:** That is the sandalwood, yes.

**Mr Hartley:** The sandalwood, yes.

**Hon SALLY TALBOT:** And the native forest component?

[4.40 pm]

**Mr Hartley:** The native forest: \$39.5 million is the projected revenue.

**Hon SALLY TALBOT:** Okay. So that has gone up from \$27.5 million in the previous financial year, or probably a little bit more than that.

**Mr Hartley:** No, \$35.1 million.

**Hon SALLY TALBOT:** Did we establish whether you are able to table that document or —

**Mr Hartley:** Well, not—it is part of a complete document that we have got here that we are sort of reading from at the moment, but if we give it to you now, we have then got nothing to refer to.

**The CHAIR:** That is all right. We can get a copy. That is no problem.

**Mr Hartley:** Yes. All right. We can get a photocopy of just that page.

**Hon SALLY TALBOT:** Yes. That would be great, and then I might return to that. Those figures you are about to give us, that is the operating profit.

**Mr Hartley:** No. That is the gross revenue. The projected operating profit is \$4 million.

**Hon SALLY TALBOT:** From memory, that is \$1 million down on the current year. Was it not \$5 million?

**Mr Hartley:** Yes, \$5.1 million in the current year.

**Hon SALLY TALBOT:** So it is down \$1 million?

**Mr Hartley:** Yes.

**Hon SALLY TALBOT:** Is there a reason for that?

**Mr Hartley:** Yes. We have run into a lot of difficulties with the plantation industry. We have got a high Australian dollar. It is well above what it was expected to be. We have also had very low housing starts all around Australia. So the high Australian dollar has meant that we are getting a lot of competition from international imports from New Zealand, Canada, the United States, European countries that are competing, because pine is basically a commodity product. It is the same worldwide. So there is that competition, and the low housing starts are making it quite difficult for the industry at the moment, so that is why that figure is lower. In contrast to that, the native timber industry is quite positive at the moment. There is a very positive outlook there. In response to the Auswest purchase of the Gunns' mill, that increased the volume last year. Because of the Gunns' closure, that somewhat diminished our sales, but with the Auswest takeover of that, they reverted back, until the fire, of course, last Thursday, to taking significant volumes, close to the full volumes, and there had also been a growing confidence in the industry. We were getting increased demand from a lot of other smaller customers as well, and we saw that as generally across the board an increase in confidence in the native industry.

**Hon SALLY TALBOT:** Can you remind us how many months of the last financial year Gunns was out of—what was the transition period between Gunns closing and Auswest Timber starting production? Because my recollection is that Auswest only reopened the other day—was it not?

**Mr Hartley:** It was formally opened the other day. They started their operations—John, would it have been February with the purchase?

**Mr Tredinnick:** They started taking logs in January.

**Hon SALLY TALBOT:** In January, so how many months were we missing that contribution to the economy?

**Mr Tredinnick:** Approximately six months.

**Hon SALLY TALBOT:** What about your expenditure data? We have got your computers in the budget papers, so we are a full bottle on that.

**Mr Hartley:** I can give you the expenditure for this year, but what you are after is the projected expenditure—is that it?

**Hon SALLY TALBOT:** Yes.

**Mr Hartley:** I will get John or Linda to read them out.

**Ms Kut:** Okay, so we have got the expenditure broken up in three main areas—being our direct forest management expenses, our employee expenses and our fixed expenditure. They form the main lines above our operating profits. For financial year 13, in totality those three items will be approximately \$48 million.

**Hon SALLY TALBOT:** And how does that compare to the previous year?

**Ms Kut:** About \$46 to \$47 million.

**Hon SALLY TALBOT:** Right.

**The CHAIR:** Sorry, just while that process is going on, I just wanted to be clear. Thank you for providing a copy of this page. Minister, I am mindful that this is a document that has not been signed off by the minister or been signed off by Treasury. I am going to suggest that members can look at this but we will have the copies returned to us, so it will be kept private to the committee. So just to reassure you that we are mindful of that process as well. Sorry, Ms Kut, were you —

**Ms Kut:** I have answered the question in terms of those three major items, but we do also have harvesting costs that we have not highlighted as yet. So the harvesting costs for financial year 13 will be approximately \$59 million, and for this financial year we predicted around \$60.5 million.

**Hon SALLY TALBOT:** Yes, I have got it; I see in the red figures second from the bottom. Could you take us through the operating subsidy payments—the \$1 094 000? Is that cross-referenced to page 780—the Forest Products Commission page? I am sorry to jump around the budget papers. I am referring to page 297; it has got Forest Products Commission \$1 094 000.

**Ms Kut:** We are not listed on page 297.

**The CHAIR:** Is yours printed off an electronic copy?

**Ms Kut:** Yes.

**The CHAIR:** There is a slight mismatch for figures. What is the title on the page?

**Hon SALLY TALBOT:** Okay, it is “Treasury”, Part 6, the first page of division 24. It is under “Administered Transactions”.

**Mr Hartley:** So it is the \$1.5 million.

**Hon SALLY TALBOT:** It is the 2010–11 actual—\$1 094 000. I just wondered if you could tell us what that operating subsidy payment refers to.

**Ms Kut:** Sorry, can you quote the number again?

**Hon SALLY TALBOT:** Yes, it is \$1 million —

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**Mr Hartley:** The \$1 094 000—is it?

**Hon ROBYN McSWEENEY:** We will have to take that one on notice.

*[Supplementary Information No B2.]*

**Hon SALLY TALBOT:** That is fine. On the next page, which in my copy is page 298, there is an item under “Government Equity Contributions”, which is quite substantial. It is item 121 and what it shows is that in this budget year it is \$10.6 million, but we go back two years and we have \$88 million and \$89 million. Could you explain that to us?

[4.50 pm]

**Ms Kut:** In the 2011–12 financial year, we had approximately \$85.6 million retirement of debt from debts accumulated from previous financial years. In addition, we have \$2.5 million of redundancy subsidy from the government. The inherited debt of \$85.6 million was paid out by government. In 2012–13, we have got an amount of \$9.4 million in there which really is two years’ component of our second rotation plantings, which is \$4.7 million for two financial years. Treasury was unable —

**Hon SALLY TALBOT:** Sorry, you just lost me. Are you talking about the \$4.7 million in 2013–14?

**Ms Kut:** That is right. Over the 2011–12, 2012–13 and 2013–14 financial years, we were to receive \$4.7 million for each of those financial years equally. Unfortunately, Treasury was unable to fund us the moneys within the 2011–12 financial year, which is why we are representing it as two lots of \$4.7 million in financial year 2012–13.

**Hon SALLY TALBOT:** So what is the \$10 673 000 in the current budget year?

**Ms Kut:** That is \$4.7 million by two, plus \$1.3 million of redundancy payments.

**Hon SALLY TALBOT:** I see—okay. The FPC has had a substantial number of redundancies—have they not—so has that just been paid for from other sources?

**Mr Hartley:** As a result of a government decision, we got \$6.6 million given to us by Treasury to fund a severance program and basically a redundancy program and redeployment. That was a decision made back in 2010 as a result of a restructuring. That has been used to fund something like a reduction of 103. The FPC reached a peak of 248 staff; it is now down to about 145, although that varies from day to day. So it has been a massive restructure of the organisation. I should point out that when FPC was formed—was excised from DEC—it was only 126 people and over the next eight years blew out to almost 250 people, and proceeded to get significantly in debt for a number of reasons. Over the last two and a half years, that process has been reversed; there has been a dramatic restructure and the finances are now back on an even keel.

**Hon SALLY TALBOT:** As of August 2012, what is your current FTE?

**Mr Hartley:** I could not give that to you exactly, but it would be of the order of 245, as I said, on a daily basis, because we employ a lot of people on a temporary basis. In places like our nursery, in any one week there are people coming and going, being employed, or because they are no longer needed at the time, they are put off. So the number fluctuates on a daily basis, but it is approximately 245.

**Hon SALLY TALBOT:** But in terms of FTEs, there must be a constant there. I know that you know far more about this than I do, but can I just remind you that the minister’s advice in May 2011 was that there had been a reduction of 69.5 FTEs which brought it down to 149 FTEs. That was in May 2011. Surely it is lower than 149 now.

**Mr Hartley:** Yes, it is. The actual full-time salaried staff at 30 June—I can give you the figures—was 130 full-time salaried staff, and then part-time, it was another 8.6 FTEs.

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**Hon SALLY TALBOT:** So it is 138.6?

**Mr Hartley:** Yes, but that—really, the people in salaried positions are more or less permanently contracted to the organisation, but as part of our operating on a daily basis, we are employing people and putting people off on a casual basis, so the numbers at any point in time are usually higher than the 138 and are of the order of about 145, so I am just trying to give you a complete picture and not downgrade the figure too much.

**Hon SALLY TALBOT:** I recall that at the time when the FPC did the restructure and we were talking about the program over a number of years—I think it was a three-year program and presumably we are just over a year into that—there was talk about the restructure involving a reduction in staff. It does not seem to me that between 149 FTEs in May 2011, if you have now got down to 138.6, is that in line with what you had hoped to do in that time? It does not seem very significant.

**Mr Hartley:** We are two years into the program and not one year, and most of the hard work was done, or the large redundancies occurred in the first year. It is obvious that those that want to leave or want to take redundancy will leave quickly and then it becomes more and more difficult to reduce the numbers, but I think in 2009 the figures were 248, as I said previously; they are now down to 138, or 145 and take into account the casuals that we have. That has been a significant reduction. We had planned on taking that further, but that was disrupted by the dismantling of shared services. When we did the restructure it made some assumptions that our corporate service activities would be done in some way by shared services. Now, because that has been dismantled, it means that our corporate service numbers are a bit higher than we thought. In addition to that, we had planned on exiting the share farm activities, and two attempts have been made to sell our share farms. Both have been unsuccessful; there has been no commercial interest or no-one prepared to pay a commercial rate for those share farms, so we have had to retain staff to manage those share farms that would otherwise have gone under the redundancy program. So the numbers are a little higher, but there has still been quite substantial progress.

**Hon SALLY TALBOT:** How many staff would be employed in the share farm part of the operation that would not now be employed, had you been successful with the sale?

**Mr Hartley:** I will ask John Tredinnick if he can answer that—how many are currently employed in share farming.

**Mr Tredinnick:** That would not be employed if we had exited? The intention was never to exit all the share farms; some of the share farms are still strategically important for our commercial operations. For those share farms that were planned to exit, there are probably six or seven people associated with those what we call exit share farms that we have not exited; we are retaining the management of them.

**Hon SALLY TALBOT:** Let us leave aside those six or seven; I can understand what you are saying, but if you do not sell the entity, then you need to keep the staff to run them. Is there a program of redundancies planned for the next 12 months?

**Mr Hartley:** No, we have basically stabilised at our numbers until we make a decision on our shared services or what we are going to do in place of that—whether we go into a partnership with an organisation like DEC or Agriculture, or whether we decide it is going to be more cost-effective by retaining staff and doing it ourselves. It has reached the point, because our bookkeeping is very different to a consolidated fund agency, that there may not be any benefit in contracting out to another government agency to do it. We may well be better off just retaining it and doing it ourselves.

**Hon SALLY TALBOT:** The Department of Agriculture and Food did take over a number of functions from you, did it not, as part of the restructure?

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**Mr Hartley:** A government decision was made that it took over our science and industry development unit, which is very much in keeping with what Ag does; its core business is doing primary production-type research, so yes, it has taken over that. It is also effectively hosting us, in that we are accommodated now with the Agriculture head office site, and that was a significant saving; we have gone from spending something like \$740 000 in the Rivervale rental accommodation to \$120 000 where we are at the moment.

**Hon SALLY TALBOT:** So how many people would the FPC be employing now, solely on that sort of financial management accounting side?

**Mr Hartley:** Nine people in the science unit.

**Hon SALLY TALBOT:** Nine FTEs?

**Mr Hartley:** Yes, and those are the only services that they are actually doing for us, apart from providing us with accommodation, which we pay for, and —

**Hon SALLY TALBOT:** Nine, just on what was being done by the Office of Shared Services, did you say?

**Mr Hartley:** No, these are research people. They are not doing any shared service-type activities for us. We have kept all of those ourselves.

[5.00 pm]

**Hon SALLY TALBOT:** So as part of the restructure, nine people went to Ag and Food in that branch; how many people is the FPC currently employing to do payroll and the sorts of things that were done by OSS?

**Mr Hartley:** I would have to refer that to Linda, who is the director of support services.

**Hon SALLY TALBOT:** I am only asking because I am picking up on your point that one of the reasons staff numbers have not fallen further is because you had to pick up the OSS.

**Ms Kut:** DEC actually provide us the OSS service within its HR, payroll and finance functions. I cannot answer the question as to the numbers, but I can take that one on notice.

[*Supplementary Information No B3.*]

**Hon SALLY TALBOT:** How are you going to fund the dividend?

**Mr Hartley:** It is brought into our budget. There is enough there on the projected forecast to pay our dividend.

**Hon SALLY TALBOT:** What dollar number are we talking about per year—one per cent?

**The CHAIR:** This is for the efficiency dividend?

**Hon SALLY TALBOT:** Yes.

**Hon ROBYN McSWEENEY:** Work in progress.

**Hon SALLY TALBOT:** We know it is one per cent.

**Hon ROBYN McSWEENEY:** It is a work in progress, too.

**The CHAIR:** You must have some idea.

**Hon SALLY TALBOT:** We are over a month into the financial year.

**Hon ROBYN McSWEENEY:** Like I said, it is a work in progress.

**Hon SALLY TALBOT:** Only 10 and a bit months left to go.

**Hon LJILJANNA RAVLICH:** So how did you know how to get to the dividend cuts if you did not know what you were going to cut? How did you know how much needed to be cut? There is clearly a figure there.

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**Hon ROBYN McSWEENEY:** Why do we not talk about the Office of Shared Services and how much money it cost—how much the Labor Party dumped into the Office of Shared Services? How many millions was that?

**Hon SALLY TALBOT:** With respect, minister, I am not sure that your officers have actually added to your rhetorical point about the OSS.

**Mr Hartley:** The difficulty we have is that we went through a major restructure and we had to make some massive changes. You can see from the staff numbers the number of people that lost their jobs. We looked at every opportunity, we withdrew from several sponsorships, got rid of magazines, we changed our office locations, all in an attempt to save money. That has brought us down to pretty much the bare bones in terms of our budget. The situation we are faced with now is that it was a totally unexpected decision by government to impose a further dividend payment on us, so we now have to go back and have a look at how we might do that. We are now quite confident that the business has stabilised to the point where income revenue is going to increase, particularly over what it was in previous years, and that we will continue to reduce our costs as we have done previously. As we get the opportunity—there is one coming up at the moment where we are going to be saving, I think, about \$120 000 a year in rental costs down in Albany as we move in with Agriculture down there and stop renting our own accommodation. So that is just an example of where we are constantly looking for opportunities, and taking opportunities, to reduce our costs.

**Mr Hartley:** No, we have stabilised with staff in Albany, particularly in light of the fact that we have made or had to make the decision to continue to do sharefarming, and we do need staff to continue to maintain our sharefarm activities.

**Ms Kut:** I can answer the question in terms of what we are estimating our efficiency dividends are for the forward years.

**Hon SALLY TALBOT:** Yes.

**Ms Kut:** In 2012–13 we are estimating a \$600 000 dividend; then a \$900 000 dividend in 2013–14; \$1 million in 2014–15; and \$1.1 million in 2015–16. I would just also like to point out that since 2009 we have actually reduced our discretionary expenditure by about \$12.8 million, since 30 June 2009, and that is made up of \$10.4 million in employee expenditure costs and \$2.4 million in admin costs. So, overall in the financial years from then to now we have saved \$12.8 million, where now total efficiency dividend savings are only meant to approximately \$4.9 million. So, we have surpassed any efficiency dividends already based on reduction of staff and restructures.

**The CHAIR:** I want to follow up on a few areas that we have covered today. Can I just follow up on answers to questions that I asked in the house in the last 12 months—I cannot remember exactly when—about the level of money owed to FPC? What is the current situation in terms of amounts owing to the FPC?

**Mr Hartley:** I will get Linda to answer that in a moment, but it has steadily declined in the last 18 —

**The CHAIR:** It was \$13 million or so the last time I asked.

**Mr Hartley:** I think it is down substantially on that, but Linda can answer.

**Ms Kut:** Are you quoting overdue debt or just debt in total?

**The CHAIR:** Yes, overdue debt.

**Ms Kut:** We are approximately stabilised on around \$9 million at the moment. When I say “stabilised” I mean we are still working towards reducing the overdue debt quite hard, but we have reduced quite significantly over the last year or two.

**The CHAIR:** And you probably need to take this on notice: if I could have that current figure broken down into who owes what, that would be useful.

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**Ms Kut:** Yes

**Hon SALLY TALBOT:** And over the time frame too?

**The CHAIR:** Yes, how much it is overdue?

**Ms Kut:** An aged analysis; we can get that for you.

**Mr Hartley:** Can that information be confidential?

**The CHAIR:** It has been provided to the house before.

**Mr Hartley:** But it does not get publicly broadcast because we do not want to be destroying our working relationship with our customers by advertising their debt. That is my concern.

**The CHAIR:** Perhaps you could provide it to the committee and we will make a decision.

**Hon SALLY TALBOT:** I guess the follow-up question for that is: what is the arrangement with your customers that with an agency the size of the Forest Products Commission they are able to run up \$9 million worth of debt?

**The CHAIR:** Before you answer that, I will just give a number for the supplementary information.

*[Supplementary Information No B4.]*

**Hon ROBYN McSWEENEY:** Before you put that supplementary information there—I am sorry, I am going back to it—but are you saying that if you list a debt then you have to list who that debt is to? Is that not commercial-in-confidence because it is a third person's debt? It is Forest Products' debt but some person owes it to them, so would that not be blacked out, the name of that person who owes to Forest Products? Would that not be blacked out because it is a name? You just want the debt.

**The CHAIR:** It is in effect an asset of the FPC that has not been paid, and I have been provided in the past with the names of who the debtors are.

**Hon ROBYN McSWEENEY:** Have you; in parliamentary questions?

**The CHAIR:** And the additional point is that if the FPC would like to make a submission to the committee that they would like to claim commercial-in-confidence, then we will consider that, as we do with our other agencies or trading enterprises.

**Hon ROBYN McSWEENEY:** Yes, I just wanted that clarified. Thanks, Chair.

**The CHAIR:** I am happy if you want to make the case but it needs to be quite specific, not just broadly, "We are concerned that this is commercial-in-confidence." We also touched upon and talked about sharefarming, the commitments, as I understand it. Because of the contracts, even though the FPC has pulled back or attempted to find a buyer for that part of the business, there is a requirement to maintain the contractual obligations that it already has; it is therefore keeping on staff to do that. Are those staff sufficient to maintain the contracts and the expectations of the farmers who are joint partners in the venture?

**Mr Hartley:** We believe it is. Obviously there will always be some disputes between us and some of the sharefarmers about what is considered adequate maintenance. But, yes, we are taking a very commercial approach to this and we are maintaining sufficient staff to do those maintenance operations.

**The CHAIR:** So that there is no concern from any of those farmers who have entered into those contracts that the rate of thinning, for example, is less than optimal?

**Mr Hartley:** Yes, there have been some disagreements and some disputes with sharefarmers, and that is bound to happen when you have got 400 to 500 of them. There are going to be differences of opinion about what level of maintenance is required.

**The CHAIR:** How does that get resolved, as a matter of interest, if there is a dispute?

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**Mr Hartley:** Through negotiations and discussions. But John is the director of operations and much closer to it than I am, so I will refer that to him.

[5.10 pm]

**Mr Tredinnick:** Just in terms of resourcing, I guess we have recognised that we have brought our sharefarm staff down to a level where just with those sharefarm staff it could be difficult to manage that number of contracts. What we have done is now merged our sharefarm staff with our broader plantation staff, so we now no longer have a sharefarms division and a plantation division. We just have a plantations division, and people within that plantations division are responsible for managing the sharefarms. So we are able to then allocate more resources over time to the management of those sharefarms by treating it as one plantation estate.

**The CHAIR:** Without short-changing the plantation side of them?

**Mr Tredinnick:** That is right. We have people geographically placed in areas, such as Gngangara, which is a good example. We already have an office in Gngangara managing our commercial estate in that area. We now use that office also to manage our midwest sharefarm plantations.

**The CHAIR:** I am sorry I am jumping around a bit, but I will just go back to the point that Hon Sally Talbot was asking about—the increase in income which you are anticipating from native forest production. Where is that increase in income coming from? What is going to change that is going to increase the income?

**Mr Hartley:** In the first instance it came from Auswest buying the Gunns plant and taking the contracted amount. That seemed to build the confidence of the industry somewhat, and we found a lot of other customers also about the same time started to increase their demand for timber. I think there was some concern that if there was a large amount of timber dumped on the market, it was going to flood the market and have an adverse effect on a lot of the other customers, and the purchase by Auswest did do a lot to rebuild industry confidence. So that compared with last year, and that is what we are saying, is where the increase in demand has largely come from. In addition to that, we are working quite hard to look at the options for using a lot of the low-grade material that currently is left in the forest. There are some 800 000 tonnes of hardwood native timber that currently is not utilised because it is low-grade material, and we are looking quite hard at a number of options that we have got for utilising that material.

**The CHAIR:** Such as?

**Mr Hartley:** Cross-veneer. John is the forester; he can give you the detail on it, but we are looking at a range of engineered wood products where they cross-laminate.

**The CHAIR:** Like Lignor material?

**Mr Tredinnick:** Yes, engineered wood products such as the Lignor material; also more traditional ply products —

**The CHAIR:** Ply from hardwood; which hardwood?

**Mr Tredinnick:** Ply from jarrah, and also potentially from karri as well, particularly from karri thinnings. We believe that there is potential for some of the karri thinnings material, which is currently going to the chipmill, to be produced into a ply product.

**The CHAIR:** Construction ply?

**Mr Tredinnick:** That is right.

**The CHAIR:** Not finished?

**Mr Tredinnick:** No, it would be more a structural material.

**The CHAIR:** Cheap ply.

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**Mr Tredinnick:** That is right but there would be more value. Yes, but increased value than biomass or woodchip exports.

**The CHAIR:** Slightly more value than firewood, yes.

**Mr Tredinnick:** That is right.

**Hon ROBYN McSWEENEY:** It is the builder coming out in her!

**The CHAIR:** It is the builder coming out of me; it is indeed, you are right. I just have not seen any.

**Mr Tredinnick:** That is right. It might be structural ply or formwork for example.

**The CHAIR:** I would much rather it was turned into furniture.

**Mr Tredinnick:** Can I just add to that? In line with what David was saying, we have increased demand for first and second grade logs. We found over the last six months that some of the smaller sawmillers in particular have been taking more and more third grade logs to try to use them to produce value added products and furniture components. We are right up on our limits as far as first and second grade logs are concerned and that has encouraged sawmills to look at options to use lower value wood for sawmill material as well.

**The CHAIR:** There are some magnificent logs in the forest labelled green firewood that I would have liked to have seen used to make furniture.

**Mr Tredinnick:** We have created a new grade, which is somewhere between third grade and green firewood, and we are supplying some of them to a couple of the northern sawmills on a trial basis at the moment. It is quite encouraging.

**Hon PHILIP GARDINER:** I have a couple of questions on the efficiencies you talked about. The first relates to the reduction of 103 FTEs. You talked about the merging of the share farm operational centre and the plantation operational centre. One hundred FTEs is a lot of people. Does that suggest that if you are delivering the same service or giving the same attention to the different functions, we were 100 FTEs inefficient for many years?

**Mr Hartley:** It is a combination of both. I think there were some gross inefficiencies in the organisation. I say that with a background of 21 years in senior executive service in four different government agencies—commonwealth, New South Wales and here. I was shocked at the gross inefficiencies and the waste in terms of staff that I encountered when I took over. That was a big factor. In addition to that, we are no longer doing some services. Share farming was one of those. It is a combination of things we have stopped doing, anything other than our core business. A lot of effort was going into share farming which, unfortunately, while it may have been well intended, turned out to be a gross waste of money. Despite \$64 million of commonwealth and state funding being poured into the share farming activities that we have recently tried to sell and could not get a serious commercial bid for is an indication that we have just wasted \$64 million of taxpayers' money. Unfortunately, a lot of effort was going into encouraging and trying to sell the concept of share farming to farmers.

**The CHAIR:** You do not cost in the additional advantages of salinity reduction and other things that come with share farming. That is the trouble with doing the figures like that.

**Mr Hartley:** If I could respond to that by saying that I spent 14 years working on the salinity problem with agriculture here in this state. I was also the co-chair of the joint commonwealth–state steering committee that allocated the funding. I provided very, very strong advice to the minister of the day that the share farming activity was not having any impact at all on salinity because all the science shows that you need about 80 per cent of the landscape or of a particular problem area put down to trees to lower the water table sufficiently to combat salinity. With the scattered plantations of 20 or 30 hectares here and there over hundreds of kilometres, it was clearly useless, plus the fact

that the scattered plantings has made them non-commercial, which has been evidenced by the fact that we have been to the market twice.

**The CHAIR:** Cut off the investment and you will not have any continuity of supply, and now we are going to get it up to a level where it does meet that value.

**Mr Hartley:** If I could politely explain that the commonwealth made it clear two years before the national action plan on salinity and water quality funding ran out that it was running out and they were not going to have a replacement program. We had plenty of notice about this program. One of the things I did in the early days of that program was negotiate on behalf of the state to get that funding, which we were successful in doing, but it was supposed to have been targeted at specific cells in specific salinity areas where we could put 80 per cent of the landscape down to trees. It would therefore use enough water to lower the water table to prevent salinity but, unfortunately, it became a case of planting trees wherever a farmer put up his hand to plant trees. They usually put up their hand where they had a patch of dirt that was not growing very good wheat so they said, "I may as well put it down to trees." It did not grow very good trees anyway but because it was so scattered, it was totally ineffective from a salinity point of view.

**The CHAIR:** I appreciate that the feds pulled the money; I understand that. Having had a tour of your forest share farming activities, it looks like it is doing pretty well to me. It is just a shame it has not got any money.

**Hon PHILIP GARDINER:** Just to pursue that a little and the reason you could not sell, are we in a downturn internationally in terms of selling this kind of timber? What is the government growing on these share farms?

**Mr Hartley:** We are not growing any blue gums.

**Mr Tredinnick:** We are growing pine species, eucalypt species and sandalwood.

**Hon PHILIP GARDINER:** Is the world market depressed in those particular timbers at the current time? Is that the reason why they cannot sell?

**Mr Tredinnick:** No. The issue with selling the share farms is that, as has been pointed out, it was a program that was nipped in the bud before it developed any sort of scale. Without that scale, industries will not develop and it will be difficult to achieve the value of the products.

[5.20 pm]

**Hon PHILIP GARDINER:** So it is a logistics issue as a result of not pursuing whatever plan might have been there in the beginning?

**Mr Hartley:** No, it was a lack of a strategic direction in planting the trees. There should have been a strategic approach and a targeted approach so that you selected a salinity hot spot and said, "Right, we're going to focus on this and make sure we plant trees in this area." Any hydrologist will tell you that you need something like 80 per cent of the landscape under trees to lower the water table sufficiently. We were only planting 20 hectares here, 50 over there. It was very scattered rather than having them in a very tight location. If we had taken a five kilometre radius around somewhere and really focused and put it down to 80 per cent of trees, it would have been effective. Trees can be very effective in using water and lowering water tables.

**Hon PHILIP GARDINER:** I guess you did not pay enough to the landowners to induce them to do it.

**Mr Hartley:** That could have been the problem but, unfortunately, it turned out to be not targeted enough.

**Hon PHILIP GARDINER:** The fact that you cannot sell them at a price is not the issue here; it is because the planning was not done and held to to complete it. It could have been a logistics success perhaps.

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**Mr Hartley:** I am a strong supporter of share farming; I think it is a good concept, but it needs to be managed correctly and in a proper targeted and strategic manner.

**Hon PHILIP GARDINER:** You have to pay a price to the farmer. He is going to lose his land, whether it is salt affected or not. He has to be induced to sell it. That was the problem, because you could not get them all together, I suspect.

I just go back to this 100 people we have reduced. How many were because of the movement out of share farming and how many was in relation to other functions that you were carrying out?

**Mr Hartley:** I would have to think that through carefully but let me give you an example. When I took over the head office of the Forest Products Commission in March 2010, it had 70 people. I think we are now operating that head office with about 32 people. I have the figures here somewhere. That is an example. We saved close to 40 people there. That is a question of efficiency. It was grossly inefficient and bloated.

**Hon PHILIP GARDINER:** That 38 you have reduced is nothing to do with the share farming servicing and so on?

**Mr Hartley:** No.

**Mr Tredinnick:** Some of those head office staff would have been involved in business development associated with the share farm business or trying to develop new industries based on the share farm business. There would be some crossover.

**Hon PHILIP GARDINER:** So some of those 38—let us say it was 25 or so—were to do with the head office and the efficiency issue, without any loss of functionality as a result of those 25 or so going.

**Mr Hartley:** Yes.

**Hon PHILIP GARDINER:** Of the others, that is the 70 —

**Mr Hartley:** It is probably a 50–50 split between reduced services and efficiency.

**Hon PHILIP GARDINER:** And efficiency? Okay. Of the rental savings that you have talked a bit about, I think you said you reduced rent from \$700 000-odd to \$120 000 going through the head.

**Mr Hartley:** Yes; \$740 000 down to \$120 000.

**Hon PHILIP GARDINER:** Then there is another \$100 000 you are looking at saving; there is as a second bit on rental, I think in Albany, you said.

**Mr Hartley:** That is right. That is an example. It is only small, but it was just an example.

**Hon PHILIP GARDINER:** The issue I want to get to is that in both cases you are going through the Department of Agriculture and Food?

**Mr Hartley:** Yes.

**Hon PHILIP GARDINER:** The rentals you are saving, are they commercial rentals or is it because you are looking at a different rental place for government buildings?

**Mr Hartley:** I am really not across negotiations with Ag on Albany, but I am assuming that that will be a commercial rent, the same as the rent established at Kensington was a commercial rent. The Ag people went away together with our own people and did some sums and looked at the size of what we required, which was substantially less than what we previously had, and what a similar commercial rate would be for similar accommodation, so it was based on a commercial rate. That is required of us as a government trading enterprise and under the concept of competitive neutrality we cannot be seen as getting a free ride or getting something at a reduced rate. So, yes, we do pay commercial rates.

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**Hon PHILIP GARDINER:** So you are confident it is not a subsidy that is being given as a result of government-owned buildings. I guess if you reduce the overheads by 38—rental per person, I am not sure how much it is—but that would probably save \$300 000 or \$400 000 of it.

**Mr Hartley:** We have probably saved about \$600 000 by making the move from Rivervale to Kensington.

**Hon PHILIP GARDINER:** I understand that; I can do that calculation easily enough; it is about \$620 000. But I am just trying to get what was contributing to the saving. So you have fewer people; you have gone from 70 to 32, you said. The other part I presume is just another —

**Mr Hartley:** Motor vehicles: there is probably a reduction of 30 or 40; I would have to look up the exact figure, but something of that order.

**Hon PHILIP GARDINER:** So parking lots and all that kind of stuff—the associated—okay, if it is a fair saving. Presumably, you must have been in a high rental spot beforehand.

**Mr Hartley:** Yes—excessive.

**Hon PHILIP GARDINER:** Where was that?

**Mr Hartley:** It was at Rivervale, which is out along the Great Eastern Highway next door to the Caltex service station, out there.

**Hon PHILIP GARDINER:** Yes; I know where you are.

**Mr Hartley:** In my opinion it was grossly excessive and the first opportunity we got when the lease was up for renewal, we moved out.

**Hon SALLY TALBOT:** Just continuing for one moment on the subject of the staff numbers, would you be able to, presumably, take a question on notice about how the FTEs are divided between native forests, mature plantations and arid forests?

**Mr Hartley:** Yes, we can supply that; we are happy to take that on notice.

*[Supplementary Information No B5.]*

**Hon SALLY TALBOT:** Can I ask a couple of questions about the amount of money you pay DEC? I obviously understand that DEC is the agency with the carriage of the management of the forests. You pay DEC fees for a range of services—I know one of them is farm management—can you tell us the other services that FPC pays DEC for?

**Mr Hartley:** They provide us some corporate services with HR and payroll activities, but fire services would be the main one. I do not know whether Linda or John would like to provide further detail on that, but depending on the fire services we pay, and it can vary depending on the fire outbreaks, it is something in the order of \$10 million a year, although there have been years when it has been very much in excess of that when there have been a lot of fires that DEC have had to control.

**Hon SALLY TALBOT:** So it is not a set amount every year, it depends on fire activity?

**Mr Hartley:** There is a set component, but there is also a flexible component depending on the number of fires, so if it is double the number of fires we obviously have to pay DEC more. If they are fires that are affecting our assets, we obviously have to pay DEC more for those fires.

**Hon SALLY TALBOT:** So you might want to—it is freezing here, is it not?

**Hon ROBYN McSWEENEY:** Absolutely.

**Hon SALLY TALBOT:** You might have to take this on notice then, but can I ask for the fixed component for the financial year just gone, the current year and the out years? And then, can I ask what you budgeted for the flexible component this current year and for the out years, and what that flexible component has been in the last two years?

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**Mr Hartley:** Yes, we can take that on notice.

*[Supplementary Information No B6.]*

**Hon SALLY TALBOT:** Does the FPC have input into burning practices or do you leave that to DEC? I am talking about prescribed burning now.

**Mr Hartley:** I will get John to comment on that in a moment. We do have an input into it in that we advise DEC on what we think the risks are for the sort of work that we expect to be done.

**Mr Tredinnick:** The forests we manage are on two types of land. They are on DEC-owned land and of course with the share farms, some of that is on private land. When we operate on DEC land we follow DEC's procedures, so we fall in behind DEC's procedures for the management of fire on that land. We will contribute to DEC's master burning plan in that we will provide them with the details where we need to, say, burn/slash on plantations prior to second rotation establishment. Also where regeneration is required on the native forest estate, DEC will be the manager of fire on the estate.

[5.30 pm]

**Hon SALLY TALBOT:** What is the mechanism for you feeding in that information? Is there an avenue?

**Mr Tredinnick:** DEC have a master burning plan and we contribute information to that master burning plan. So say in the few months just gone, we need to do burning of slash heaps on our plantations. We will give them a list of the plantations where we need to do that burning and we will work with them on the prescriptions for that. They will approve those prescriptions before that burning goes ahead, but we will follow the guidelines.

**Hon SALLY TALBOT:** Are you still doing the five-year rotational burns in the native forests?

**Mr Tredinnick:** That is a fire protection activity and it is DEC's responsibility. We will only work with DEC on the regeneration burns following harvesting.

**Hon SALLY TALBOT:** That leads quite nicely, I think, on to some of the questions I had about governance. It is no secret that there are problems in the governance arrangements that have been highlighted by the EPA. Can I ask for your understanding of what those problems are? What does the FPC see as the governance problems? I mean, these are well and truly on the public record.

**Mr Hartley:** You are talking about governance problems associated with the harvesting of native forests?

**Hon SALLY TALBOT:** Yes—the forest management.

**Mr Hartley:** The forest management plan. Have you got —

**Mr Tredinnick:** I think you will probably have to feed us what you see as those governance problems.

**Hon SALLY TALBOT:** They are not my observations; they are the EPA's observations that there is more work that has to be done on the way that FPC, DEC and the Conservation Commission of WA work together to implement the forest management plan.

**Mr Tredinnick:** I think there is certainly room for efficiencies in the way we work together. It is a costly process; there are audits on top of audits on top of audits. There is room to streamline those processes, but I do not think those processes compromise the way the forests are managed.

**Hon SALLY TALBOT:** So, you do not see any particular problems in terms of governance?

**Mr Tredinnick:** Not that impact on forest management; I think they impact on the cost of forest management through the inefficiency, but they do not impact on the outcomes we get from forest management.

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**Hon SALLY TALBOT:** When we talk about compliance monitoring, what is the requirement made of the FPC in terms of compliance monitoring of the FMP?

**Mr Tredinnick:** Under the FMP we have a number of KPIs that we need to report on on an annual basis. Those KPIs are listed in the FMP and we provide that information to DEC. There is also a comprehensive five-year report, which is done by the EPA and we provide information to that.

**Hon SALLY TALBOT:** Can I just confirm that your understanding is that there are annual compliance reports.

**Mr Tredinnick:** We have KPIs that we need to report on, that is right, in terms of the volume we have cut et cetera.

**Hon SALLY TALBOT:** I notice in the FPC's annual report it refers to annual compliance reports. The latest one that is publicly available is December 2009.

**Mr Tredinnick:** I am not sure, I would have to check. I think that was probably the outcome of the five-yearly review. The big compliance report is the five-yearly review.

**Hon SALLY TALBOT:** On the FPC web site, under the "Publications" tab, there are compliance reports. There is nothing there later than December 2009.

**Hon ROBYN McSWEENEY:** Is there any particular compliance report year that you were after that we could put on notice?

**Hon SALLY TALBOT:** There has to be—the forest management plan —

**Hon ROBYN McSWEENEY:** No, was there a particular one you would like?

**The CHAIR:** The ones that are missing.

**Hon SALLY TALBOT:** I would like to see all the missing ones, to date. So given that the FMP has a statutory requirement for annual compliance reports, I would like to see all the annual compliance reports after the one dated December 2009.

*[Supplementary Information No B7.]*

**Hon SALLY TALBOT:** The mention of the FMP leads me to ask how many people you have working on the next FMP?

**Mr Hartley:** That is a fairly difficult question because we do not have anyone working full time on it because it is not our responsibility; it is the responsibility of DEC and the Conservation Commission. We get consulted on occasions, so on occasions there is a significant input from us, and then we might not hear anything for quite a long time. So we are not actually working on the FMP ourselves because it is not our responsibility.

**Hon SALLY TALBOT:** You are not working on it yourselves?

**Hon ROBYN McSWEENEY:** No, it is DEC's responsibility.

**Mr Hartley:** It is DEC and the Conservation Commission.

**Hon SALLY TALBOT:** Is there any formal consultation process in place?

**Mr Hartley:** We are just one of the stakeholders they consult. We do meet with officers—not necessarily regularly—from the Conservation Commission and also from DEC, and occasionally with the Conservation Commission itself. It is coordinated inside our organisation by Gavin Butcher, who is our director of technical services, and he, from time to time, will get assistance from some staff inside the organisation. But it would be quite difficult to actually put an FTE figure on it because we are not working on it full time. We just largely respond because, as I said, it is not our responsibility; it does bind us and we would love to be writing the FMP and be in control of it, but that is not our responsibility. Quite clearly there is a poacher-gamekeeper issue and the two are separated; we are separated from writing the FMP.

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**Hon SALLY TALBOT:** Has the Conservation Commission and/or DEC ask you about your views about sustainable yield?

**Mr Hartley:** John, can you comment on that? I am not aware of a specific request on it, but I have no doubt that we have given advice and made comments on sustainable yields. I am not aware of a specific request.

**Mr Tredinnick:** They ask us questions and ask us for input on issues relevant to sustained yield, such as utilisation and how we expect utilisation from the forest to change. They look at how we have been managing the forests in terms of our silviculture prescriptions and how we expect that to change going forward, and they feed that into their models. We also have some input into the log quality and how they might manage that log quality over time as part of their sustained yield calculations; but not on the number itself, just on some of the parameters that feed into the model to calculate sustainable yield.

**Hon SALLY TALBOT:** Can I take you back to the document you have tabled for us here, which is your forthcoming SCI, and ask you what the rationale is? If you follow the line that says “South West Forests” under “Timber Sales”, in the current financial year it is \$35 million—am I looking at the right column?—which increases to \$50.7 million in 2017; what is your rationale for that?

**Mr Tredinnick:** I think we explained before, for the financial year 2011-12 one of the largest sawmills in the south west, being Auswest, was only open for six months; next year we expect that to be open for 12 months and take its full licence volume, so we expect to supply the full sustained yield of jarrah sawlog products.

**Hon SALLY TALBOT:** So that is what we are looking at under the financial year 2013 number presumably?

**Mr Tredinnick:** That is right; that is the jump up there.

**Hon SALLY TALBOT:** It is \$39.509 million.

**Mr Tredinnick:** That is right. The increases over time are as a result of the projected increases in the utilisation of forest residues. At the moment we are not fully utilising all the karri residue available to us; there is another 30 or 40 000 tonnes of karri that is available. We have business development initiatives to try to develop new markets for them, some of which we talked about.

**Hon SALLY TALBOT:** Are these the ideas you were canvassing earlier —

**Mr Tredinnick:** That is right.

**The CHAIR:** On that: I would like the full list of what you are looking at. Does that include things like biofuel?

**Hon SALLY TALBOT:** Yes.

**The CHAIR:** Perhaps I could put that on notice. So what you are looking at for utilisation of the rest of whatever that is—what you would call “waste” and what I would call “trees”. What your business plan is for —

**Mr Tredinnick:** We can tell you —

**The CHAIR:** What options are you looking at for —

**Mr Tredinnick:** We can give you broadly what those options are.

**The CHAIR:** No, I would like them exactly, and how far advanced they are.

**Mr Hartley:** Well, all we are doing at this stage is exploring options. We are going to the market and we are talking—you mentioned Lignor and companies like that—just to see what the options are. Clearly, fuel—biofuel—would be one of those options, but we do not know what the final outcome will be. We are simply talking to people and we are actively seeking opportunities.

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[5.40 pm]

**The CHAIR:** Actively seeking biofuel options?

**Mr Hartley:** No, we are not, no; we are just looking at all options. We want —

**The CHAIR:** All options?

**Mr Hartley:** Yes. We certainly have not ruled out biofuels, but that is obviously the low end of the spectrum; we are much more interested in some of these engineered wood products options that might be out there. But we do not have a set plan. We —

**The CHAIR:** These options have been canvassed for a long time for native forests, have they not—decades?

**Mr Hartley:** Well —

**The CHAIR:** And they have not progressed.

**Mr Hartley:** Okay, that could well be right, and maybe they will not progress on this occasion. But as the general manager I am there running a commercial business, and I have to investigate these options and just see whether there is any business potential out there. There has been a significant amount of interest shown by five or six major customers at the moment, but there are no definite plans and we do not have a preconceived idea on exactly how that will be used.

**The CHAIR:** I would like to know what those five customers are and what their conversations have been about.

**Mr Hartley:** Conversations?

**The CHAIR:** You are saying you have five companies that have expressed interest in certain propositions.

**Mr Hartley:** Well, we have put out an expression of interest to say that —

**The CHAIR:** So can we have the details on those?

**Mr Hartley:** Yes, we can provide that.

[*Supplementary Information No B8.*]

**Hon SALLY TALBOT:** Just to continue that same point: with the greatest of respect, if you were speaking to a lending authority and you predicted an \$11 million increase in revenue over a certain period of time, and then when you were asked questions about it you just said it was on basis of some conversations you have been having, that really would not cut it. So I do add weight to the Chair's point about wanting some background detail—some substance to this \$11 million. I am leaving out the Gunns, Auswest calculation, so I am going from financial year 2013, which is \$39 509 000, to a projected income of \$50 698 000 in 2017. Can you elaborate on that now or do you want to take that as a supplementary question?

**Mr Hartley:** Well, we think there are prospects out there where we can sell additional low-grade wood that we are not selling at the moment, so we have, I guess, made some assumptions about that. We also think the price is likely to go up over time as well. There are a number of reasons why we are optimistic and think that that revenue figure will increase.

**Mr Tredinnick:** Can I add to that? I think it is important to note that the market context in which we look at opportunities has changed quite significantly over the last 10 years; the availability of hardwood timber in Australia, as well as from tropical countries, is changing, so the demand for hardwood timber is increasing. As I mentioned before, there are opportunities just with sawlogs; we are able to sell now some lower grade sawlogs in the sawmills to produce some value-added product.

**The CHAIR:** Railway sleepers, yes; great value-adding.

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**Mr Tredinnick:** No, it is not just railway sleepers.

**The CHAIR:** A fair chunk of railway sleepers.

**Mr Tredinnick:** The sawmills are looking at opportunities to use a lower grade wood. We are finding all but one sawmill at the moment is taking bole saw logs rather than four or five years ago they were taking first and second grade saw logs. There is only one sawmill now that is actually taking graded first and second grade logs. The rest are now taking bole logs which have another 30 per cent of wood within them. We are finding that the sawmills are taking some lower grade logs, which increases utilisation. Also the market context is changing, which means that the viability of something like an engineered wood product made out of hardwood improves, as does the technology change.

**The CHAIR:** Sorry to do a double act with Hon Sally Talbot: in terms of the assumptions in that change from the current return to that projected, is one of the assumptions that more timber will be cut, or is it only based on better utilising the existing allocation?

**Mr Tredinnick:** It is cheap. It is based on better utilising the existing allocation and it will also allow us to better meet the preferred prescriptions which DEC have for forest harvesting.

**The CHAIR:** It assumes that the allocation into 2017 will be the same—that there will be no reduction either?

**Mr Tredinnick:** Exactly. It assumes the same allocation —

**The CHAIR:** It assumes that the next forest management plan will allocate the same amount of timber as currently?

**Mr Tredinnick:** It is a sustained yield.

**Mr Hartley:** We have no —

**The CHAIR:** In your view it is.

**Hon ROBYN McSWEENEY:** Hopefully we will have a good, sustainable future, yes. Coming from the south west and being a south west member, where a lot of my people work in the timber industry —

**Hon SALLY TALBOT:** Minister, as a fellow member for the South West I am sure you share my almost as great concern as I have about that south west forest line item—mature plantations, income falls. Hon Giz Watson comes from a certain philosophical background about these things, as do people from the industry, like you, but we have all been talking about the need to transit this industry into the plantation field, yet your timber sales projections from mature plantations goes from \$55 732 000 this year to \$49 500 000.

**Mr Tredinnick:** Can I explain the reason for that?

**Hon SALLY TALBOT:** Please.

**Mr Tredinnick:** That is actually in residue products. At the moment our thinnings in our plantation estate are behind. Our average thinning age is higher than it should be. We have got a significant thinning backlog to work through to make our plantations more productive. Once we work through that backlog, our revenue will drop from the sale of those residue products.

**Hon SALLY TALBOT:** You have spoken about the growing demand for hardwood products—sawn timber from hardwood species. We had some information dated June 2012—so it is obviously very current—saying that no new plantings for Australian hardwood species with the objective of solo production of planting will be undertaken by the FPC in the next five years. No hardwood species were planted in 2010 or 2011. Why is there not more effort going into what you have already identified as a major opportunity for an operation like the FPC?

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**Mr Tredinnick:** I guess the economics of growing hardwood in plantations is such that, if you base it on current projections, current prices, it is very hard to get a commercial return from establishing hardwood plantations. If you make some projections about what you think prices might be in the future, perhaps it provides a better return. We have also found that over the last few years of course, with the expansion of the blue gum estate, the price of land for growing blue gums for woodchip has bid the price up to such a level that it also makes it unviable. Hopefully we will find that, I guess, with the reduction in planting of new areas for blue gum, in fact we expect that area of blue gum to contract, maybe land prices will correct and it will be possible for, if not the FPC, for private investors, to make hardwood plantations work in the south west.

**Hon SALLY TALBOT:** Does that not boil down to the point that Hon Phil Gardiner made about needing to deal with the people who will look for some sort of economic return from whatever they are engaged in farming or not farming? Are you saying that that is the economic assumption that underlies that fall in revenue from mature plantations, or are you saying it is a policy decision?

**Mr Tredinnick:** Sorry, those mature plantations are primarily softwood plantations—in fact it is all softwood plantations, not hardwood. Softwood is a commodity product that trades in commodity markets. We are exposed to what happens around the world. Hardwood is more a niche product. With the shortage of hardwood—it goes into specialist uses such as furniture, joinery, flooring, decking, et cetera—we are finding that with the reduction in the amount of hardwood available, with its unique properties, the price of that is creeping up. Softwood pine, however, is a commodity.

**Hon SALLY TALBOT:** Why would you not be planting more hardwood for sawn timber if the price is going up?

**Mr Tredinnick:** It is what the FPC was doing, and the program is not going ahead.

**Hon SALLY TALBOT:** Is it a policy setting?

**Mr Hartley:** Because of the huge amount of money that was being lost in share farming, a decision—and the only decision that could be made was made—to exit those activities and to cease throwing money after it. Something like \$43 million has been lost by FPC over that eight-year period. That was lost on the plantation activities, not on hardwood harvesting.

[5.50 pm]

**Hon PHILIP GARDINER:** What price of land would make it commercial, per hectare?

**Mr Tredinnick:** It is probably a combination of the price of land and the price of the logs.

**Hon PHILIP GARDINER:** You mentioned the land as being a sensitive variable. What price of land would you look at if you were going to consider putting trees on now?

**Mr Tredinnick:** There are a number of variables. There is land, there is the productivity of the growth, there is the distance away from the processing centre, and there is the value of the log, which all feed into that. Obviously as the land price comes down, it becomes more viable.

**Hon PHILIP GARDINER:** What roughly is the price of land that you would look at? A few years ago, let us say, what price could the land be to attract your interest as a commercial price?

**Mr Hartley:** I would have a lot of difficulty in answering that question, but there were up-front payments given to farmers of up to \$3 500 a hectare, which in many cases would have more than bought the land. That is what some of them were paid in return for making their land available for share-farming activities. They still owned it. FPC did not own the land. The up-front payments—not all of them that, some only \$2 500 or maybe less—but that is an indication of the payments. It was not the size of the payment that was the problem with the non-commerciality of it, it was the fact that the scale was such small little lots. When you harvest, you cannot get the economies from that size to harvest and to transport it; particularly as soon as you get over about 80 or 100 kilometres away from a processing plant, it is a killer, that is the problem.

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**Hon PHILIP GARDINER:** I understand that problem. That is probably the most sensitive one. It had to have a long-term plan, as we discussed before, to make it logistically sound.

**Mr Hartley:** Yes.

**Hon PHILIP GARDINER:** Agroforestry is something which also encounters that same problem, but agroforestry, with a rising price for carbon—which is no doubt going to come some time in the next 10 to 15 years—you need to be able to establish the species that have the growth in the different climatic zones around the south west of Western Australia. I actually have some agroforestry on a property, of which my wife and I are principals. We have bright sugar gum, ironbark and Tasmanian blue gums, but the growth is quite different. What work are you doing in that regard in intensive planning for what is going to happen between five and 15 years' time?

**Mr Tredinnick:** I guess as a result of the cabinet decision 18 months or so ago FPC is not directly involved in the establishment of new plantations. However, as a result of the activities we were doing we have a wealth of intellectual property in regard to genetics, how species perform on particular sites et cetera. I guess with the decision to continue to manage the sharefarm estate, because we were not successful in selling it, we are looking at ways we can make that information available to landowners who want to establish trees themselves. We have an enormous wealth of information in terms of genetics and we have a seed store.

**Hon SALLY TALBOT:** On a fee-for-service basis?

**Mr Tredinnick:** No; for example, we have recently confirmed that our south coast manager, Dave Guille, will sit on the board of Australian Forest Growers so he can facilitate the transfer of that information through to the AFG. We are looking at other avenues as well. No; we are not looking at doing it on a fee-for-service basis. If someone wants to come to us and pick our brains on what we have learnt from sharefarming, we will provide that information to them.

**The CHAIR:** Is the FPC in any conversation or any application with federal funds for tree farming in the current package and, if not, why not?

**Mr Hartley:** We are not aware of the commonwealth offering any funding for tree farming.

**Hon SALLY TALBOT:** The state government has actually applied for funds. I assume you would have had an input into that.

**The CHAIR:** Yes, exactly.

**Hon SALLY TALBOT:** There is a huge stack of money.

**The CHAIR:** Being applied for.

**Hon SALLY TALBOT:** One billion dollars over six years.

**The CHAIR:** Do you mean the FPC has got nothing to do with that?

**Mr Hartley:** That is correct.

**Hon PHILIP GARDINER:** So who has got something to do with it?

**Mr Hartley:** You will have to inform me. I am unaware of this commonwealth scheme where they are offering funding for tree farming. Is it commercial forestry? What sort of funding is it? I am not aware of it. I speak to commonwealth officials in forestry in Canberra on a regular basis. No-one has brought this to my attention.

**Hon PHILIP GARDINER:** Maybe we are getting little bit confused. I am thinking when you say that, of the carbon farming initiative.

**Hon SALLY TALBOT:** No.

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**Hon PHILIP GARDINER:** Okay. You are thinking of tree farming where they give you a grant to plant the trees. I am not sure whether they give you a grant to plant the trees. Do they under the current CFI?

**The CHAIR:** I have not actually gone into the detail of the packages

**Hon PHILIP GARDINER:** I do not think they give you a grant to plant.

**Mr Tredinnick:** The carbon farming initiative is not a grant to plant trees. I think it facilitates carbon sales from trees.

**Hon PHILIP GARDINER:** I think that is right; you have to get a commercial operator. What is your engagement with the carbon farming initiative? This is an opinion. Assuming that will become a factor and, as I said before, in the next five to 15 years, are you sufficiently prepared to work with the agricultural industry. There is no doubt that most farmers get at least 10 per cent unproductive country, maybe even 20 per cent. I take your point before, David, that scale and logistics are a crucial part of this thing, so there will be a complication in the way it is going to be commercialised, I know, apart from the carbon price. What is your engagement with the CFI?

**Mr Hartley:** At the moment, we are not. What you are talking about would have to be a government policy decision. A government policy decision was made a couple of years ago that we were to exit sharefarming carbon trading activities and focus on our core business, which was to manage the state's assets, to manage those forest assets owned by the state in an ecologically sustainable manner to benefit Western Australia. Two years ago we contracted back to just managing the state-owned assets. The question of getting into the tree farming you are describing and trees on farms—I have a background in that; I think it was 1984 when, in New South Wales, I was the principal conservation farming officer and trees on farms were something we were promoting very, very strongly. Sorry to digress, but with 10 per cent trees on your farmland, our figures were showing then that there could be enormous economic benefits.

**Hon PHILIP GARDINER:** Without a carbon price?

**Mr Hartley:** Yes, that is right. Look—there are a lot of benefits from trees on farms and at a personal level I have a great deal of sympathy with what you are saying. But it would have to be a change in direction for government to re-engage in those sorts of activities. A very difficult policy question for government is to ask: where is the market failure and why should government actually physically engage in growing trees? Government does not physically engage in growing wheat, sheep, cattle or anything else, so what is different about this form of primary industry or primary production that government should get into that. At the moment the government policy decision is that we are simply managing the government-owned or state-owned forestry assets. We are not looking to expand into carbon trading or sharefarming.

**Hon PHILIP GARDINER:** Like a lot of these new activities there is a catalyst involved, which is the role a government has to have. It may not be part of the forestry commission but it should be either one of you. Either the Department of Agriculture and Food or the forestry commission, one of the two, should be involved.

**Hon SALLY TALBOT:** Look, can we just pull back?

**Mr Tredinnick:** Can I just address that? In terms of engagement with the CFI we do actually manage 5 000 hectares of plantation, which is for carbon benefit. As the CFI has developed, we have actually put forward a methodology, in conjunction with the Forest Science and Industry Development Group through the Department of Agriculture and Food. We are the ones who have put up the methodology under the CFI for there to be agroforestry plantings where there can be both a carbon and a timber benefit. That methodology has actually been proposed by FPC and the Department of Agriculture and Food. We are actively engaged with the commonwealth on that.

[6.00 pm]

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**Hon PHILIP GARDINER:** That is not what I get from Canberra.

**Mr Tredinnick:** Sorry. I can send you a copy of the methodology.

**Hon PHILIP GARDINER:** Can we get a copy of that?

**Mr Tredinnick:** Yes.

**The CHAIR:** That is what I was trying to get at. There is a degree of cooperation.

**Mr Tredinnick:** That methodology has been developed through the forest science group.

**The CHAIR:** I know; I have already been told about it.

**Mr Hartley:** I am sorry; I misunderstood your question.

**Mr Tredinnick:** I think we are at the cutting edge on that in understanding the pros and cons of the CFI.

**Hon PHILIP GARDINER:** I hear your answer with interest because I do have an entirely different response from people within the area in Canberra.

**Mr Tredinnick:** Yes, we can send you that.

*[Supplementary Information No B9.]*

**Hon SALLY TALBOT:** In terms of sustainable yield, can you explain to us the difference between sustainable yield and realised yield? The context in which I am asking you this question is that one of the DEC audits of FPC's work shows that realised yield was greater than forecast by nine per cent in the case of jarrah sawlogs and by 30 per cent in the case of karri regrowth thinning. What is your understanding of this? What does that audit mean—the difference between sustainable yield and realised yield?

**Mr Tredinnick:** I guess in addressing the karri thinnings question, we found that, as we were doing the scheduled area of karri thinnings, those areas were more productive than what had been assumed by DEC so there was greater production than what DEC had forecast. It turned out DEC had been quite conservative in their forecasts and they then sought to amend the forest management plan to increase the yields from karri thinnings. In terms of jarrah sawlogs, I think there might have been some years earlier in the forest management plan where FPC over cut the sustained yield on an annual basis and the FMP allows us to do that. We can cut 10 per cent more than sustained yields as long as over the 10 years we cut that sustained yield.

**Hon SALLY TALBOT:** That explains the increase in the karri quota we put through the Parliament in the past six months or so. How much was that increase?

**Mr Tredinnick:** I think it was 117 000 cubic metres increased to 160 000 cubic metres.

**Hon SALLY TALBOT:** I have a figure of 23 per cent with a big question mark next to it. Can you take that on notice perhaps and confirm it for us.

**Mr Tredinnick:** Yes sure.

*[Supplementary Information No B10.]*

**Hon SALLY TALBOT:** Was there a reduction in other areas because of that increase in the karri quota?

**Mr Tredinnick:** I do not think there is any reason for there to be a reduction in other areas. This was simply that it turned out that DEC's projections were conservative. There was more timber available from the thinnings than what had been assumed.

**Hon SALLY TALBOT:** Do you know off the top of your head, or do you have to take it on notice what the current allowable cut for jarrah and karri is?

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**Mr Tredinnick:** Yes, the current allowable cut for jarrah sawlogs is 131 000 cubic metres and for karri it is 54 000 cubic metres for karri sawlogs and, as I said, for karri chip it is 160 000 cubic metres and there is also a sustained yield for what DEC terms other bole logs, which are the lower quality logs that arise from the operations.

**Hon SALLY TALBOT:** And how much of that—obviously leaving aside the chips—how much jarrah And karri became sawn timber in the last year?

**Mr Tredinnick:** I can give you an estimate. As an estimate of jarrah, you could work on a conversion of probably 32 or 33 per cent of the saw log becomes sawn timber. Karri is probably a little bit higher than that.

**The CHAIR:** Of first grade or second grade?

**Mr Tredinnick:** Of first and second grade; it would be different qualities.

**Hon SALLY TALBOT:** I was also going to ask you what the proportion of first, second and third grade logs is. Again, you might want to take that on notice.

**Mr Tredinnick:** First and second grade logs is typically about 80–20. So of 131 000, you would find about 80 per cent are first grade and 20 per cent are second grade. As indicated before, we are also selling some of that first and second as bole log, which increases the utilisation as well. Third grade—it varies depending on market demand, but we can provide you with figures on third grade.

**Hon SALLY TALBOT:** If you could provide me with the figures on third grade.

*[Supplementary Information No B11.]*

**Hon SALLY TALBOT:** Perhaps, rather than an estimate, you could take that on notice about how much jarrah and karri became sawn timber in 2011–12.

**Mr Tredinnick:** Yes, we can get that from the mill returns.

**The CHAIR:** We will include that in supplementary information B11.

Investment security guarantees—I cannot see any provisions made in the budget for potential payment of any investment security guarantees that are currently in place. If an ISG is required to be paid, who will pay it and what budget provisions have been made for that possibility?

**Mr Hartley:** I would have to confirm it.

**The CHAIR:** Do you know what an ISG is?

**Hon ROBYN McSWEENEY:** Yes, I do know. I was just talking to myself; it was not directed at you.

**Mr Hartley:** The total amount of the liability at the moment is of the order of \$60 million—just under \$60 million. If it is to be paid, it is paid by the government, and my understanding is that it would be through Department of Commerce.

**The CHAIR:** It is a matter of consolidated revenue rather than out of your budget.

**Mr Hartley:** Yes.

**Hon SALLY TALBOT:** On that same topic, can you explain why there was such a change in the total ISG payout figure between 1 May—\$56 920 258, which is the figure you are just talking about, I think; \$57 million. But then only a matter of months before, it was \$77.2 million. I can see that the change there is that the Gunns, \$32.5 million has dropped out. Is that the sole difference?

**Mr Tredinnick:** That is correct. The total Gunns volume was not transferred to Auswest. Some of that volume was then added onto contracts for smaller sawmillers and not associated with ISGs, so the ISG liability dropped with the sale of Gunns to Auswest.

**Hon SALLY TALBOT:** Did Auswest also get cheaper logs?

**Mr Tredinnick:** No.

**Hon SALLY TALBOT:** No change in that aspect of the contract?

**Mr Tredinnick:** I would say on average the log price would not have changed. There was a change in the way logs were priced in that we looked at the different value of logs from regions in the south west, but on average they are paying roughly the same amount. What did change with the Auswest contract was that they are not taking logs from the northern region. One of the problems Gunns had was they had very high transport distances. When they were looking at that high volume, they were getting logs from the north, from Mornington, and from the south. The Auswest contract puts a very heavy emphasis on supplying from the south where those logs are available and then from Mornington but not for long-haul logs from the north which reduces their delivered cost.

**Hon SALLY TALBOT:** Is there any proposal to change the two provisions relating to climate change and dieback in relation to the ISGs?

**Mr Tredinnick:** I cannot say. The Department of Commerce owns that document as an ISG. I do not think there are even any discussions as yet as in terms of whether ISGs will be offered as part of the next round of contracts.

**Hon SALLY TALBOT:** Your last statement of corporate intent relates to performance reporting. It says that you are introducing an additional reporting structure by the minister to the Department of Treasury and Finance. Has that been put in place ?

**Mr Hartley:** Sorry. I missed the question.

**Hon SALLY TALBOT:** On page 11 of your previous statement of corporate intent—that is the one that is just expired—under performance reporting to the minister it says

FPC is introducing an additional reporting structure via the minister to the Department of Treasury and Finance. FPC will submit quarterly reports on its budget on the progress of the financial and organisational restructure.

[6.10 pm]

**Mr Hartley:** Yes; that was part of an agreement we had with Treasury when we negotiated the restructuring of FPC and the write-off of the debt. That was one of the conditions. Quite rightly, it is one of several things that we do. Any contract, for example, over \$2 million, they want to see, and they want to see quarterly reporting. I am more than happy with that, because the last thing we would want to see happen is FPC go back into debt.

**Hon SALLY TALBOT:** So that quarterly reporting is now done.

**Mr Hartley:** Yes.

**Hon SALLY TALBOT:** I think you are putting two different things together, because that section also refers to the minister being provided with updates throughout the year where there are material variations.

**Mr Hartley:** That is normal procedure; we update the minister constantly.

**Hon SALLY TALBOT:** How many times in the last financial year would the FPC have provided those updates to the minister?

**Mr Hartley:** To the minister? I could not answer that off the top of my head.

**Hon SALLY TALBOT:** Are they public documents—those updates?

**Mr Hartley:** No, I do not think any of them are public documents. I do not think our quarterly reports that go via the minister are public documents. I would imagine that none of them would be.

**Hon LJILJANNA RAVLICH:** Could the committee have access to them, please?

**Mr Hartley:** I would probably have to take advice on that.

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**Hon LJILJANNA RAVLICH:** You provide them and we will work out whether they are confidential or not. That is usually the way.

**Mr Hartley:** I think I have got the right to counsel, so I just have to get some advice on that.

*[Supplementary Information No B12.]*

**Hon SALLY TALBOT:** You made reference to the northern forests, and the EPA has been concerned about the drying climate, the lack of rainfall and rising temperatures in the northern jarrah forests. I see there was a difference in the annual report to that also affecting FPC plantations. Could you tell us what that effect has been?

**Mr Hartley:** The impact on plantation in the North, in the Swan coastal area, has been quite significant.

**Hon SALLY TALBOT:** What is the economic impact?

**Mr Hartley:** I will let John comment on that in a moment, but I do want to make the point that the pine plantations that we have got on the Swan coastal plain are an exotic or introduced species, and they appear to have been quite severely affected by what was a record low three-period rainfall from 2008 to 2010. But the impact in the native forest has not been as great. Rather ironically, it has been the conservation areas in the forests that have suffered more from this dry season effect than the regrowth areas. It is probably related to the fact that there are more stems per hectare; in other words more trees demanding more and more water in a conserved or locked up forest than what there is in regrowth. So there has been a very big difference between the impact to plantations has been far greater than it has been in the native area.

Something like 78 per cent of the Swan coastal plain has been affected to some degree from a very minor effect through to, in some cases, complete tree deaths. We have had to go through salvage operations on some of those trees. The cost, I guess, is going to be in the long term with a loss of some of those trees, but I will let John answer more specifically if he does have information available on the cost.

**Mr Tredinnick:** We do not have information available on the dollar cost, but, as David said, the consequences will be in the future, particularly in terms of supplying the plantation industry in the north. Of the roughly about 7 500 hectares that were impacted by the drought, about half of that—probably about 3 600 hectares—was severely impacted, meaning that we have had to go in and salvage product over the last 12 months. In the rest of the affected area, we have effectively got some thinning, which may not impact on the sawlog volume going forward. In some areas, it will impact on the sawlog volume; in others, we might consider it to be self-thinning. Instead of us taking out the industrial wood product, nature is taking out the industrial wood product. But the big hole will be when we try to supply a northern industry in the future, so we are working with industry at the moment to look at the way in which they can adapt their technology and their markets to use some younger and some lower-grade softwood so that we can get that resource to stretch further. Also, I guess, we are still not sure what the total impact of the extended dry conditions will be. July was very dry, for example, and that started to get us worried about whether we might see this ongoing effect. So we are trying to manage the forests to reduce the risk of this in the future, particularly by doing some thinnings.

**Hon SALLY TALBOT:** I hope you are using data that is a bit more up to date than DEC's, because they have gone back to 1961, which I feel perhaps is not the most useful data.

I just wanted to refer you to the section of the recently expired SCI where it talks about the restructure and things that were not yet done. You have clearly got a new structure centred on the south west forests, mature plantations and sandalwood; that is done. Downsizing staff. What is the termination of fee-for-service activities? That is why I asked, on the basis of that advice you were giving, whether there was a fee for service.

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**Mr Hartley:** We will not be entering into any more contracts where we will be supplying carbon permits for someone or doing share farming activities. We will concentrate on managing our state-owned assets for the benefit of the state.

**Hon SALLY TALBOT:** Yes; okay. Have you finished the transition and co-location with DAFWA?

**Mr Hartley:** Yes. We have now been there for about 15 months.

**Hon SALLY TALBOT:** Are there any other areas? You have mentioned Albany. Are Nannup or Manji involved in any of that?

**Mr Hartley:** Not at this stage. We just look at those opportunities as they come along. When a rental expires, we will always look at the opportunities for reducing our costs.

**Hon SALLY TALBOT:** Finally, on the exit plan for the share farm, is there still a plan?

**Mr Hartley:** No, there is not a formal plan, other than in the immediate future, we will continue to maintain those share farms, because we do not have any commercial option to exit them.

**Hon SALLY TALBOT:** So they are not still for sale?

**Mr Hartley:** No, they are not formally for sale. However, if there was a proper commercial advantage to the state, if someone came along with an offer, we would certainly look at it. The decision would obviously have to be government's—the board that I work for, and then the government would have to make a decision. We are not actively seeking a buyer at the moment.

**Hon SALLY TALBOT:** So have you made the decision to take them off the market, as it were?

**Mr Hartley:** They were not —

**Hon SALLY TALBOT:** I understand that you did not have a for sale sign out the front.

**Mr Hartley:** We have been through it twice and, yes, I guess we have made the decision, “No, we are not going out to the market again.” That is not to say if the right sort of opportunity came up, if suddenly someone that expressed no interest previously came along and said, “Look, we’ve changed our mind and we’re now very interested in the cell around Esperance or Albany and we don’t want to buy the lot, but we’ll buy that”, yes, we would be very interested; or if someone came along and said, “Yes, we’re interested in sandalwood.” So we have not totally written off the possibility that we would sell them some time in the future.

**Hon SALLY TALBOT:** Has there been a change in policy or not about divesting the share farm assets?

**Mr Hartley:** There has not been a formal change in policy in the sense that there was a decision made by government that we would divest; however, we have been unable to divest, despite having gone out there twice and run a quite detailed expressions of interest.

**The CHAIR:** I promised the last question to Hon Philip Gardiner. I have got another four pages, but they will go on notice.

**Hon PHILIP GARDINER:** Mine is a very quick one. I think you mentioned before there is a \$48 million cost in relation to the share farming. The revenue that you might get from that asset—those trees there—what is that on a discounted basis?

**Mr Hartley:** Zero at the moment.

**Hon PHILIP GARDINER:** No; it must have value if you cut it down and sell it, or is there no market for the product?

**Mr Hartley:** There is no market for the product. As I explained before, it is so scattered. We are talking about the exit share farming, are we not, that we tried to sell and did not?

**Hon PHILIP GARDINER:** I am just talking about the asset itself. Is the cost of actually getting it to a mill bigger than the revenue you are going to get from the wood?

[6.20 pm]

**Mr Hartley:** Yes is the short answer. There may be an occasional little pocket where there might be an exception, but because of the scattered nature, you cannot get contractors to come out and travel 100 kilometres to chop down 20 hectares of trees and take their equipment another 100 kilometres and chop down 50, and then have to get that material, once they have chopped it down, to a port or a processing facility that might be several hundred kilometres away. That is the problem that we have got.

**Hon PHILIP GARDINER:** This just sounds to me like shearing sheep.

**Mr Tredinnick:** Normally, there would not be the development of the industry for the processing on that sort of scale of 5 000 or 10 000 cubic metres.

**Hon PHILIP GARDINER:** I cannot believe that the cost of getting people to go and cut them down and then the transport costs to a mill are going to be more than the value of the timber.

**Mr Tredinnick:** I think it is because, as we talked about before, the scale —

**Hon PHILIP GARDINER:** Is that what it is? That is a fact?

**Mr Tredinnick:** To get efficiencies in sawmilling, you need scale. You need about 150 000 or 200 000 cubic metres of input into a sawmill processing hardwood plantation sawlogs to get the sort of cost efficiencies that you would make profit on. Because the estate has not continued to grow, there obviously will not be that sort of investment in plantation sawlog processing.

**Hon PHILIP GARDINER:** I just wanted to get a measure of the value that is there; that is all. I was not questioning that decision. I just wanted to get an estimate of what the value was. But if it is going to be less than cutting them down and transporting them, how the hell did we do it in the first place?

**Mr Tredinnick:** And that is on the exit estate. Obviously, we have some pine share farms which are included in our Wespine state agreement and our Wesbeam state agreement that we would expect to supply that would have value.

**The CHAIR:** We will draw to a close because it is late. The committee will forward any additional questions that it has to you via the minister in writing in the next couple of days, together with the transcript of evidence, which includes the questions you have taken on notice. Members, if you have any unasked questions, I ask you to submit these via email to the committee clerk at the close of the hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date, and the advice is to include specific reasons as to why the due date cannot be met. Finally, on behalf of the committee, thank you very much for your attendance this afternoon. We will close the hearing.

**Hearing concluded at 6.23 pm**

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