



FOREST PRODUCTS COMMISSION

STATEMENT OF CORPORATE INTENT

2012–2013



Forest Products Commission


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Agreement

The *Statement of Corporate Intent 2012–2013* describes how the Forest Products Commission (FPC) intends to achieve its financial, industry, environmental and social objectives in the 2012–2013 financial year. This Statement complies with the requirements of the *Forest Products Act 2000* and represents an agreement between the Minister for Forestry and the FPC regarding the expected level of performance from the Commission over the twelve month period from July 2012 to June 2013.

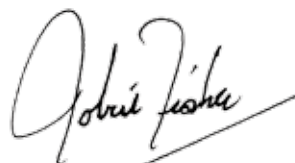
The *Statement of Corporate Intent* is consistent with the *Strategic Development Plan* which provides a five-year view of the Commission's planning.

In accordance with the *Forest Products Act 2000* and with the Treasurer's concurrence, the Minister for Forestry and the Commission agree to the content of this *Statement of Corporate Intent*.

The document may be amended by agreement by both parties where there are unforeseen circumstances. There is an onus on the parties to work collaboratively to address significant issues that arise.



Hon Terry Redman MLA
Minister for Forestry



Robert Fisher AM, JP
Chairman
Forest Products Commission

Overview

The Forest Products Commission (FPC) has been operating since November 2000 as a statutory authority managing the State's commercial forestry activities and is governed by the *Forest Products Act 2000* (the Act) and sections of the *Forest Management Regulations 1993*.

The FPC is responsible for the management and development of Western Australia's native forest, plantation and sandalwood industries on land owned or leased by the State.

The Act outlines the functions to be undertaken by the FPC that include both commercial and non-commercial activities. It also specifies that in carrying out these functions, the FPC must ensure two fundamental principles are met:

- The long-term viability of the forest products industry; and
- Application of the principles of ecologically sustainable forest management in the management of indigenous forest products located on public land.

The Act requires the FPC to achieve a profit that is consistent with planned targets while ensuring that the two key principles are met. It also requires that decision making takes into account the long and short term economic, environmental and social considerations.

The functions and principles outlined in the Act have guided the development of the strategic issues, outcomes and planned achievements, consistent with the Government's forest policies that are outlined in the five-year *Strategic Development Plan*.

A key policy driver is the development of the forest industry in Western Australia. The forest industry generates \$1.06¹ billion and directly employs more than 3,400² people in timber related industries including forest management, harvesting, and primary processing. The figures do not include the manufacturing sectors such as furniture and joinery of indirect services supporting the industry. Ongoing industry development and associated investment opportunities will increase regional employment, with flow-on economic and social benefits. However, long-term security of resource is essential to ensure this investment and development occurs. For the native forest industry this means security of access to timber beyond the period of the current *Forest Management Plan (FMP) 2004–2013* and for the softwood industry this requires policies to ensure an adequate land base remains under plantation estate.

1 Schirmer, J. 2008. Forestry, Jobs and Spending: Forest Industry Employment in Western Australia. CRC for Forestry, Hobart.

2 Dare, M. and Schirmer, J. 2012. Western Australia Forest Industry Survey unpublished data. CRC for Forestry, Hobart.

Vision

To build and maintain an environmentally sustainable and commercially viable forest products industry that provides economic and social benefits to the people of Western Australia.

Mission

The FPC's mission is to contribute to Western Australia's economic and regional development by:

- The sustainable harvesting and regeneration of the State's plantation and native forest resources;
- Promoting innovation in forest management and local value adding for timber resources; and
- Generating positive returns to the State from the state-owned plantations and native forest resources.

Values

At the FPC, we operate responsibly, ethically and sustainably, and our products and services provide renewable resources.

We are committed to achieving results and delivering excellent service to our customers, partners, the community and each other.

We commit to a safe workplace for our staff and contractors and put the wellbeing and professional development of our people at the forefront of our business.

Operating environment

Since 2010, the FPC has been engaged in a major organisational restructure. The FPC has streamlined its operations to achieve more efficient and effective service delivery, with a greater focus on its core business. The restructure has led to a significant improvement in the FPC's financial outlook and it is well placed to deliver on its corporate objectives in the future.

The FPC operates and maintains management systems for environmental, operational and safety performance which is accredited under the Australian Forestry Standard (AFS) and Environmental Management System (EMS) ISO 14001.

The FPC undertakes its forest operations to achieve the highest environmental standards and ensure the sustainable management of plantation and native forest resource. It is subject to strict environmental requirements that are set out under the FMP. The FMP is prepared by the Conservation Commission Western Australia (Conservation Commission) and reviewed by the Environmental Protection Authority. Obligations under the FMP include annual reporting on the compliance of staff and contractors against environmental objectives and key performance indicators.

All the FPC's operations are certified to the EMS international standard. The FPC's sustainable management of the State's South West native forests and mature plantations is certified to the AFS. Certification under the AFS ensures the environmental, economic and social values attributed to the forest are not degraded or lost for current and future generations. Through independent certification, the FPC has successfully demonstrated its operations are well managed under rigorous processes and environmental controls.

Currently there are ongoing challenges facing the industry. Building and construction are the biggest users of timber products in Australia and demand is strongly aligned with building industry activity. There has been a marked decline in housing starts in Western Australia in 2011 with total dwelling construction approvals falling by 9.3 per cent, seasonally adjusted. Macro-economic factors have compounded the difficulties facing the industry including the strong Australian dollar and consequent increase in competition from imported substitutes.

The current FMP expires in December 2013 and there is uncertainty in the native timber industry pending the outcome of the revised FMP 2014–2023. Resource uncertainty makes it difficult for the industry to plan for medium to long-term capital expenditure.

The ability of the FPC to support a local plantation industry beyond current agreements will be dependant on achieving an estate of appropriate scale. Over the next 20 years the softwood plantation estate will substantially reduce. The primary reasons for this decline are:

- In accordance with the Gnamara Sustainability Strategy, most of the plantations harvested in the Northern Forest Region will not be replanted.
- Over the next ten years sharefarm leases contributing at least 5,000 ha to the core estate will expire following harvesting. At present there is no strategy to continue or replace them.
- New developments, easements and changes in land tenure continue to encroach into the plantation estate.
- Progressive decline in private softwood plantations, with no corresponding reinvestment by the industry.

Without an immediate halt to further estate loss and development of a long-term industry strategy that includes options for expansion, the FPC's ability to support a competitive plantation sector will be limited.



Unprecedented low rainfall, from 2008 to 2010, has caused tree deaths in some plantations particularly affecting those located to the north of Perth and along the Harvey coast. Consequently there is likely to be a negative impact on FPC's ability to supply existing contracts in the medium to long-term. A review of FPC's plantation management practices is required to assist with mitigation of the impacts of a highly variable climate. The review will also assist the FPC to properly inform customers of future resource availability.

The FPC will continue to work in partnership with stakeholders to ensure a long-term, viable forest industry. This will be achieved through the sound management of existing resources and seeking new economic and policy mechanisms to support the industry into the future.



Strategic directions

FPC operates three distinct business segments: South West Native Forests; Plantations; and Sandalwood. Each business has its own operating conditions, markets and financial characteristics. The following is a brief overview of each industry.

South West Native Forests

The primary native forest species utilised by the forest industries in south west Western Australia are jarrah (*Eucalyptus marginata*), karri (*Eucalyptus diversicolor*) and marri (*Corymbia calophylla*). These timbers have unique properties that are valued in applications such as furniture, flooring, decking and joinery.

Forest harvesting and regeneration is managed in accordance with the FMP 2004–2013. The total forest area covered by the FMP is 2.24 million hectares (ha) and the resource is distributed between the Swan (northern), South West (central) and Warren (southern) regions. Under the current FMP, approximately 64 per cent of the native forest area is in conservation and other reserves and the remaining 36 per cent is available for timber production. The area available for timber production has decreased by approximately 50 per cent since 1999 and harvesting is now undertaken on less than 0.5 per cent of the total forest area each year. In the jarrah forest, these operations range from low intensity thinning to shelterwood (partial removal of stems) and gap creation. Karri forest management involves the thinning of young forests followed by clearfall harvest in line with best silvicultural practices. All areas are regenerated following harvesting.



Since 1999 there has been a reduction in allowable harvest quantities of jarrah and karri sawlogs from approximately 700,000 cubic metres (m³) to 185,000 m³. The annual sustainable yields for first and second grade sawlogs, as prescribed by the FMP, are currently 131,000 m³ (170,000 tonnes) for jarrah and 54,000 m³ (71,010 tonnes) for karri.

Over 900,000 m³ per annum of low grade timber resource is generated from harvesting operations and mine site clearing. This includes low grade logs from the production of jarrah and karri sawlogs, small logs from forest thinning and trees not required for habitat or long-term growth of the forest. Markets for the low grade resource are restricted to karri woodchip exports, jarrah residue sales from mine site operations, charcoal for the production of silicon and firewood.

The native forest sector is a major economic driver in regional communities with flow-on employment, social and economic benefits. The State's native forest-based timber industry directly employs more than 1,200² people and contributes to the \$1.06¹ billion per year forest industry turnover.

The jarrah sawmill sector has been operating in difficult commercial circumstances, in part a result of changes in the quality, quantity and location of the log resource. The FPC is working with the sawmill sector to align the quality and quantity of log resource to specific mill and market requirements.

The term of the current FMP expires at the end of 2013. The FPC is working collaboratively with other government agencies to set the foundations to support a viable native forest timber industry for the next FMP. South West Native Forest operations (with the exception of active mining tenements) are certified under the AFS.



1 Schirmer, J. 2008. Forestry, Jobs and Spending: Forest Industry Employment in Western Australia. CRC for Forestry, Hobart.

2 Adapted from Dare, M. and Schirmer, J. 2012. Western Australia Forest Industry Survey unpublished data. CRC for Forestry, Hobart.

Plantations

The FPC manages plantations of radiata pine (*Pinus radiata*), maritime pine (*Pinus pinaster*), eucalyptus (various species) and sandalwood (*Santalum spicatum*). The plantations are located over a broad geographic area that extends from Moora in the north to Esperance in the south. Most commercial activities are focussed on the harvesting of maritime pine in the Northern Forest Region and radiata pine in the Central and Southern Forest Regions. The total core plantation estate area of 73,000 ha supplies existing timber processing facilities.

This area does not include sharefarms in the Esperance or Wheatbelt regions. These sharefarms cover a total area of 18,690 ha (including pine, sandalwood, and eucalyptus species). This area is referred to as the 'exit' estate. However, expression of interest processes have not been successful in identifying buyers and the FPC continues to manage this estate.

The primary commercial products from the pine plantations are sawlog and industrial wood (chip) logs. There are three main processing plants – a sawmill, Laminated Veneer Lumber (LVL) log plant and particleboard plant – that generate 72 per cent of revenue from plantation operations. The remaining 28 per cent is primarily derived from short-term supply agreements for industrial wood logs. The supply of pine resource to all three major processing plants is under State Agreement Acts with terms of 25 years.

The softwood plantation sector in Western Australia contributes significantly to the \$1.06¹ billion per year forest industry turnover and employs over 700² people.

As previously outlined, the softwood plantation estate will substantially reduce over the next 20 years. The core estate that services the LVL plant and sawmill is approximately 73,000 ha and this is projected to decline to 39,800 ha by 2033.

The only significant planting of second rotation sites undertaken by the FPC at present is in the Central Forest Region to support the Dardanup sawmill. However, the current second rotation plantings are insufficient to meet the future needs of the softwood industry without a significant reinvestment and expansion in plantation area.



1 Schirmer, J. 2008. Forestry, Jobs and Spending: Forest Industry Employment in Western Australia. CRC for Forestry, Hobart.

2 Adapted from Dare, M. and Schirmer, J. 2012. Western Australia Forest Industry Survey unpublished data. CRC for Forestry, Hobart.

Sandalwood

Sandalwood (*Santalum spicatum*) is a small native tree that occurs throughout the southern two-thirds of Western Australia including the Wheatbelt and Rangelands.

The commercial harvesting of sandalwood on public land is governed by the *Forest Products Act 2000*, *Sandalwood Act 1929* and *Wildlife Conservation Act 1950*.

Annual harvest limits are set under the *Sandalwood Limitation Order (1996)*. The current total annual harvest permitted by the *Order* is 3,000 tonnes. The FPC contractors, harvest approximately 2,300 tonnes of wild sandalwood each year on State owned lands, the remainder is allocated to private property owners. FPC's annual production comprises of 1,350 tonnes of green bole sandalwood and 800 tonnes of dead sandalwood.

Western Australian sandalwood is sold into both the domestic and international marketplace. With the depletion of wild sandalwood populations across South East Asia, the FPC has emerged as the largest international supplier of sandalwood.

A significant proportion of high grade sandalwood is sold into the domestic market for oil distillation. The extracted oil is exported into the perfumery, cosmetic and pharmaceutical markets.

Sandalwood not sold to the oil market is value added locally and exported as blended powders, pre-grind and feature logs mainly into the Asian agarbatti market for production into religious and cultural products.

The FPC currently manages 5,800 ha of sandalwood plantations on privately owned land which forms part of the FPC's 'exit' estate. It is anticipated that there will be commercial quantities of plantation resource available from 2025 and this will be taken into account as part of any future sandalwood industry strategy.



Business Management

The FPC, following the restructure program, has the financial foundation to be commercially viable into the future and generate positive returns for the State.

In January 2010, the Government determined that the FPC should focus on its core business of native timber, mature plantations and sandalwood. The FPC will continue to consolidate its financial position and operate on sound commercial principles.

The FPC also acknowledges that legislative, financial, economic, environmental and social issues can affect the FPC's ongoing commercial viability and these risks need to be managed.

Other specific risks to the financial viability of the FPC which will need to be addressed over the Forward Estimates period are:

- FMP 2014–2023 and uncertainty over its impact on the native forest industry;
- Exceptional dry seasons and the impact on plantation resource; and
- A high Australian dollar in terms of the \$US exchange rate which has a negative impact on the FPC and its customers.

The FPC's focus over the Forward Estimate period is to fully utilise the available native forest resource under the FMP by identifying opportunities for industry development and sales of uncommitted low grade resource. To meet silvicultural objectives the FPC must maximise the benefits from plantation thinning. The FPC will also work with industry to manage the impact of the high Australian dollar and weak housing market.

The FPC's performance and ability to deliver outcomes is totally dependent on its staff. The FPC is committed to the on-going development of staff and ensuring a safe working environment.

To improve efficiency and productivity it is important for the FPC to invest in new technologies, identify new business and industry development opportunities, continue to strengthen working relationships with stakeholders and encourage the development of a multi-skilled workforce.



Dividend policy

Dividends are calculated at 65 per cent of adjusted profit, i.e. Net Profit After Tax adjusted for non-cash items of Natural Resource Asset valuation and Strategic Tree Farming revenue recognition. Dividends approved by the Board are payable in the following financial year (normally in the December quarter).

Efficiency dividend

As announced by the Government in the 2012–2013 State Budget, FPC will be enacting a series of initiatives designed to meet an efficiency dividend of \$0.568 million for 2012–2013.

The financial forecast contained in Appendix 1 includes this efficiency dividend target.

Financial outcomes

As a result of the current market downturn in softwood sales and woodchip exports, the FPC will not be targeting a net profit after tax for 2012–2013.

The financial forecast summarised in Table 1 and in Appendix 1 contain the latest forward projections for FPC and is an update on the financial forward estimates contained within the 2012–2013 State Budget contained in Appendix 2.

Table 1 includes the impacts of the efficiency dividend announced by Government in the 2012–2013 State Budget.

Table 1. Financial statement and business targets

Economic assumptions	2012–2013 Target
Timber demand ('000 tonnes)	
Native forest	580
Plantation	825
Sandalwood	2.5
Forest regeneration (hectares)	
Native forest harvested areas (ha)	7,900
Plantation second rotation establishment (ha)	2,500
Native sandalwood (tonnes of seed)	10
Other	
FTEs	145
\$/A/\$US exchange rate	0.99
Financial outcomes (\$ million)	
Timber sales	102.0
Operating profit	2.2
Net Profit After Tax	0.1
Closing Cash Balance	21.3
Dividends paid	2.9
Performance indicators (%)	
Return on assets (NPAT/Total Assets)	0.0%
State return on equity	0.8%
Operating profit to timber revenues	2.2%

Pricing arrangements

Pricing arrangements are determined by a variety of factors including requirements under the Act section 59 which prescribes the costs that are to be factored in to a price for forest products. Harvesting and haulage costs are borne by the customer.

Capital works and borrowings

The FPC's capital works program is comprised of second rotation plantation establishment and a capital equipment replacement/upgrade program. The capital works program for 2012–2013 consists of:

- \$0.6 million for an ongoing program to update information technology and other equipment that supports the delivery of the FPC's services; and
- \$6.8 million for second rotation establishment.

FPC, during 2012–2013, will develop a business case to replace business management systems.

Expenditure on forestry roads and bridges is funded from the recurrent budget and is undertaken in conjunction with harvesting operations.

The FPC will fund its capital expenditure in 2012–2013 from operational cash flows and a government equity injection of \$4.7 million for second rotation establishment.

Table 2 highlights the capital works program for 2012–2013.

Table 2. Capital works program

Asset investment program	2012-2013 Estimated expenditure \$'000's
Computers, plant and equipment	600
Second rotation establishment	6,768
Total	7,368
Funded by:	
Internal funds and balances	2,668
Government equity contribution	4,700
Total funding	7,368

The second rotation establishment program will establish 2,500 ha in 2012–2013.

Accounting policy

The FPC's financial statements are prepared in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Details of the FPC's significant accounting policies can be found in the Notes to the Financial Statements in the 2011 Annual Report.

Community service obligations

The FPC undertakes a variety of non-commercial Community Service Obligation activities including industry development, forestry research and policy development for which it does not receive government funding.

The FPC provides expert advice and technical support to businesses and government agencies. The agency also conducts public promotion, education and consultation about the role forestry plays in sustaining societies. The distinctive qualities of WA's native forest timbers and the utilisation of value-adding products are actively promoted at industry events and activities throughout the year. The FPC staff also lecture university students on sustainable forest management and silviculture. The estimated annual cost of performing these activities is in the vicinity of \$170,000.

Staff at the FPC are actively involved in fire management activities, including fire prevention and suppression. While the FPC is reimbursed from DEC for the direct cost of staff time in attending fires a number of other direct and indirect costs (such as lost time and leave in lieu) incurred in providing this service are funded internally at a cost of approximately \$300,000 per year.

The Forest Science and Industry Development unit (FSID) has been transferred to the Department of Agriculture and Food (DAFWA) but will continue to be funded by the FPC at a cost of \$1.5 million per annum. FSID staff have extensive experience in scientific research within the timber industry. The FSID will work with the broader industry to create partnerships that develop new initiatives and address the challenges that are confronting the industry.

The FPC has attempted to divest the 'exit' estate through two public sale processes but has been unsuccessful. It is unlikely that the FPC will be able to sell the whole of the 'exit' estate on a commercial basis in the foreseeable future. Therefore the FPC will retain and manage the estate and will continue to seek commercial outcomes. The annual cost of maintaining the 'exit' sharefarm estate will be \$2.5 million per year in FY013 decreasing to \$1.7 million by FY017.

Performance reporting

The Board of Commissioners are provided with monthly reports on the performance of the FPC.

The annual budget, financial accounts and strategic plan are submitted to the Board for its approval each year. The Board has an Audit and Risk Committee which meets at least three times a year and out of session meetings are held as required.

The FPC monitors its performance based on the business activities listed in the SDP and Statement of Corporate Intent. The Minister is provided with an evaluation on performance and financial outcomes in the Half Year and Annual Reports as well as updates throughout the year where there are material variations.

The FPC has an additional reporting structure to the Department of Treasury. The FPC submits quarterly reports on its budget and the progress of the financial and organisational restructure.

Summary of strategic directions

Issue to be managed	5 year Outcomes	2012–2013 Major planned achievements
<p>South West Native Forests</p> <p>New Forest Management Plan (2014–2023)</p> <p>The term of the current FMP finishes in December 2013 and a new FMP is being prepared by the Conservation Commission. The previous FMP process resulted in a substantial reduction in the area available for harvesting and a subsequent drop in the volume of sawlog available to harvest. Any further reduction in access to timber resources will threaten the financial viability of the FPC's operations and the ongoing viability of the industry.</p>	<p>The FPC will be operating sustainably and profitably under a new FMP and the timber industry will be viable.</p> <ul style="list-style-type: none"> • The FPC will be operating sustainably and profitably under a new FMP and the timber industry will be viable. 	<p>FPC will prepare submissions and advocate that:</p> <ul style="list-style-type: none"> • The draft FMP (mid 2012) contains options for both the status quo and an increase in sawlog availability for a viable timber industry. • The draft FMP contains comprehensive socio-economic information for sustaining the native timber industry. • The draft FMP outcomes will at least continue to maintain the current industry and preferably promote new development opportunities as well.
<p>Resource certainty</p> <p>The term of the FMP is currently 10 years and native forest supply contracts must be consistent with this period. However, the time period required to achieve the payback from the major investments that are necessary to support new markets and introduce new technology needs to be often longer than 10 years.</p> <p>Opportunities for longer term security have been available via State Agreements and Investment Security Guarantees (ISG's), but both of these vehicles have limitations.</p>	<ul style="list-style-type: none"> • A long term Timber Industry Strategy. • Options for Government's consideration to provide long term security where required. • Industry investment in new sawmilling / processing technologies. 	<ul style="list-style-type: none"> • External consultancy to provide input to the FMP and development of a Timber Industry Strategy. • A draft Timber Industry Strategy is developed which describes potential markets and the investment framework necessary to attract new industries.

Issue to be managed		2012-2013 Major planned achievements	
South West Native Forests (continued)		5 year Outcomes	
<p>Sale of low grade timber resources</p> <p>Over 900,000 m³ per annum of low grade timber resource is generated from harvesting operations and mine site clearing. However, markets for the low grade resource are restricted to karri woodchip exports, jarrah residue sales for charcoal and firewood.</p> <p>Additional markets for low grade products will reduce harvest costs associated with higher value logs and facilitate the implementation of silvicultural operations. They also provide for a significant boost to regional economies and employment.</p>	<ul style="list-style-type: none"> • New investment in processing technologies that utilise low grade timber resources. 	<ul style="list-style-type: none"> • A market evaluation plan is prepared based on submissions to an Expression of Interest (EOI) for low grade timber resources. • Briefing papers prepared that identify the commercial settings necessary to facilitate and support new industries. • The tendering phase for Contracts of Sale options, resulting from the EOI process are under negotiation in preparation for commencement of processing in 2014. 	
<p>Promoting and supporting the native forest industry</p> <p>Sustainable forest management is demonstrated to the market through the FPC's certification against the AFS standard. However, customers have requested that the FPC also extend this certification to include FSC-Controlled Wood.</p> <p>There is also an opportunity to improve the way the FPC promotes the unique structural qualities and aesthetic features of Western Australia's unique native timbers. This promotion will improve market opportunities for the FPC's customers and increase value throughout the supply chain.</p>	<ul style="list-style-type: none"> • Continued certification against internationally accepted standards for sustainable forest management that are consistent with market requirements. • Product and forest management information readily available for stakeholders. • Improved public awareness of sustainable forest management and the regional development benefits of the timber industry. 	<ul style="list-style-type: none"> • Evaluate the benefits of pursuing the Forest Stewardship Council (FSC) standard for Controlled Wood by 30 June 2013. • Produce a suite of sustainable forest management and timber fact sheets. • Complete a stakeholder communications plan that contains responsive and consistent messages. 	

Issue to be managed	5 year Outcomes	2012–2013 Major planned achievements
<p>South West Native Forests (continued)</p> <p>Improved supply chain efficiencies</p> <p>Operating costs in the native forest sector have been affected by:</p> <ul style="list-style-type: none"> • Additions to the reserve system that increasingly restrict forest harvesting to more marginal areas. • Changes to silvicultural practices that result in less area of each coupe being available to harvest. • Poor alignment between the available sawlog resource and the location of larger sawmills. This has resulted in high haulage costs and an inefficient haulage sector where the opportunities for back loading are limited. • Inefficient governance arrangements between the FPC, DEC and Conservation Commission. 	<ul style="list-style-type: none"> • Costs of sawlog production and haulage to reduce by at least 10 per cent from 2012 levels. 	<ul style="list-style-type: none"> • Complete a detailed assessment on opportunities for cost efficiencies within the harvest and haulage industries. • Prepare tender documents for new harvest and haulage contracts that encourage those enterprises that demonstrate an ability to develop and invest in efficient processes. <p>Begin the first phase of implementing improved governance by completing the redraft of:</p> <ul style="list-style-type: none"> - the Memorandum Of Understanding with DEC; and - the working arrangement documents, including harvest approvals and hand-back responsibilities and procedures.

Issue to be managed	5 year Outcomes	2012-2013 Major planned achievements
<p>Plantations</p> <p>Maintain viable plantation industry</p> <p>The major long-term threat to the plantation sector is the progressive erosion of plantation area. Without new investment and the planting of additional land, the softwood plantation estate will substantially reduce over the next 20 years. As a consequence of the long lead time between planting and the harvest of sawlogs, action is required now to avoid a future shortage in resource availability.</p> <p>Maintaining supply to the existing sawmill will require the establishment of at least an additional 15,000 hectares of softwood plantation in the Central Forest Region over the next 10 years. The options to maintain supply to the LVL plant are much more difficult.</p> <p>To justify additional investment in plantations requires clear objectives and strategies for the future structure of the plantation industry in Western Australia. Commitment of public and/or private resources will require a high level of collaboration between industry and government.</p>	<ul style="list-style-type: none"> • A plantation industry strategy is guiding the development of a commercial plantation estate. • Subject to consistency with the industry strategy, the FPC to have facilitated the establishment of an additional 7,500 ha of land in the Central Forest Region to support the Dardanup sawmill. 	<ul style="list-style-type: none"> • Prepare a vision and strategy for the future of the softwood industry in Western Australia. • Assess and report on the scale of softwood estate needed to satisfy future industry requirements beyond existing Agreements. • Prepare a business case and funding model for new plantation expansion. (Options for investment in new plantations may include a range of solutions from government funding to private/public partnerships and private equity.)
<p>Thinnings backlog</p> <p>It is preferable if the radiata pine plantation estate is thinned at around 12 years of age to reduce competition within the stand and promote the development of sawlogs. Over recent years the market for industrial wood, via the Wesfi State Agreement, has not been sufficient to keep up with the supply from first thinnings. Consequently, the age of first thinnings in radiata pine plantations has extended to 16-18 years.</p>	<ul style="list-style-type: none"> • The backlog of plantation thinnings is cleared. • Alternative markets have been developed to ensure future thinnings are on schedule. 	<ul style="list-style-type: none"> • Review thinning schedules and develop a strategy addressing thinning backlog. • Supply new markets for softwood residues. • Implement production systems (e.g. in-field chipping) to accommodate increased thinning demand and reduced stem size.

Issue to be managed	5 year Outcomes	2012–2013 Major planned achievements
<p data-bbox="212 1845 244 2141">Plantations (continued)</p> <p data-bbox="268 1630 300 2141">Adapting to changing weather patterns</p> <p data-bbox="316 1509 475 2141">Recent low rainfall has resulted in the loss of some trees, particularly in plantations north of Perth and on the Harvey coast. Future plantation management practices will need to mitigate the impacts of changes in weather patterns.</p>	<ul data-bbox="268 1077 419 1491" style="list-style-type: none"> Plantation management practices incorporate mitigation strategies for emerging risks associated with changing weather patterns. 	<ul data-bbox="268 434 475 1048" style="list-style-type: none"> Review and report on plantation management practices to incorporate mitigation strategies that will reduce any losses associated with prolonged dry periods. Develop new markets for drought affected resource to expedite salvage recovery.

Issue to be managed		2012–2013 Major planned achievements	
5 year Outcomes			
Sandalwood			
<p>Regeneration program</p> <p>Available data indicates that there has been insufficient natural sandalwood regeneration and growth to compensate for mortality and harvesting of trees in the wild population. FPC is able to reverse this trend through a regeneration program over the long-term.</p>	<ul style="list-style-type: none"> • Successfully regenerate sandalwood through the sowing of 10 tonnes of sandalwood seed per annum. 	<ul style="list-style-type: none"> • Successfully complete the 2012 regeneration program. • Source seed that can be used for regeneration of rangeland areas without risk of mixing provenances. 	
<p>Sandalwood industry strategy</p> <p>The FPC has a supply agreement until 2016 with Mount Romance Australia (MRA) for 550 tonnes of the highest quality sandalwood for oil distillation. The balance of supply of predominantly lower grades is sold by the FPC through a marketing and processing agreement with Wescorp that expires in 2014.</p>	<ul style="list-style-type: none"> • Successful implementation of a sandalwood industry strategy that will ensure an efficient and sustainable sandalwood industry. 	<ul style="list-style-type: none"> • Commence a review of the sandalwood industry to develop a structure and strategy that will ensure an efficient and sustainable sandalwood industry. • The review to include: an analysis of the sustainable yield from native sources; the potential impact of synthetic products; integration of the plantation estate and future industry structures. 	
<p>Illegally harvested sandalwood</p> <p>Illegal sandalwood harvesting in Western Australia is having a negative impact on the sustainability of the resource, and the FPC's customers.</p>	<ul style="list-style-type: none"> • Eliminate illegal sandalwood harvesting in Western Australia. 	<ul style="list-style-type: none"> • Work with DEC to ensure action is taken that discourages and eliminates illegal sandalwood harvesting. • Engage with the Department of Agriculture, Forestry and Fisheries (DAFF) to develop Chain of Custody certification for sandalwood. 	

Issue to be managed	5 year Outcomes	2012–2013 Major planned achievements
<p>Business Management</p> <p>Business improvement</p> <p>The Forest Planning and Management System Project has been initiated to replace the current business management system and provide an integrated solution. The new system will simplify the capture and dissemination of information by incorporating the following operational activities:</p> <ul style="list-style-type: none"> • Forest planning and production management; • Production customer billing; • Contract management; • GIS functionality; • Environmental and regulatory compliance; and • Business reporting. 	<ul style="list-style-type: none"> • An integrated forest planning and management system is operational by 2014. 	<ul style="list-style-type: none"> • Establish an internal reference group to prepare draft specifications which include comprehensive business operational requirements and technology implications for the new Forest Planning and Management System. • Engage an external project manager to oversee the initial development and implementation of the first phase of the project.
<p>Safe working environment</p> <p>The provision of a safe and healthy work environment is the FPC's primary commitment to its people. The FPC is taking steps to ensure it is well placed to implement the new national harmonisation OSH laws.</p>	<ul style="list-style-type: none"> • Integrated management and accounting reporting system. • An effective occupational safety and health management system that targets zero work-related injury and illness. 	<ul style="list-style-type: none"> • Review current management accounting and reporting systems and recommend business improvement opportunities. • Improve the Safety Management Framework via audits and programs to ensure progress, in a timely manner, to meet the requirements of the proposed <i>Work Health and Safety Act</i> for Western Australia.

2012-2013 Major planned achievements		
Issue to be managed	5 year Outcomes	
Business Management (continued)		
<p>People and development</p> <p>Management's focus is to continuously develop our people's competencies and provide professional training opportunities. Developing a five year Workforce Plan will identify gaps between current workforce capabilities and those required to achieve the FPC's strategic goals.</p>	<ul style="list-style-type: none"> An efficient and effective staff development program that provides training and development opportunities to enhance staff performance in a safe and productive work environment. 	<ul style="list-style-type: none"> Develop a five year Workforce Plan that assists the FPC in identifying its current and future workforce needs. Review the effectiveness of the Performance Development Review System (PDRS) in the context of the Workforce Plan. Revise and implement an induction program that incorporates employee awareness of their corporate, safety and environmental responsibilities. Implement a staff training and qualifications register to assist the FPC in identifying staff skills and competencies.
<p>Stakeholder management</p> <p>Consider key processes, risks and controls in relation to the FPC's overall stakeholder management processes. This includes the FPC's commitment to stakeholder management and the existence of an overall stakeholder management framework. The key is to understand and communicate the FPC's process to source new or maintain existing stakeholder relationships in response to changing internal and external environments as well as managing stakeholder issues as they arise.</p>	<ul style="list-style-type: none"> An effective stakeholder management framework is in place. 	<ul style="list-style-type: none"> Review and improve the stakeholder management strategy, policy and procedures.
<p>Reducing operating costs</p> <p>The FPC will continue to review and consolidate their financial position to ensure the agency is financially sustainable into the future.</p>	<ul style="list-style-type: none"> Operating costs have been reduced in proportion to timber sales revenue. 	<ul style="list-style-type: none"> Review and develop a plan to reduce operating costs. Participate in discussions that will lead to reduced charges levied for services provided by the DEC. Work with customers to achieve a debt position where customer accounts are maintained within credit terms.

Appendix 1 – Financial forecasts

The following forecast includes the impacts of the efficiency dividend announced by Government in the 2012–2013 State Budget. Refer to comments in the Business Management, Efficiency Dividend section.

Profit and loss statement

FY013	Forecast
Revenue	
- Harvest revenues	102.0
- Production and delivery expenses	(57.9)
Gross profit	44.1
Other revenues	2.5
Less:	
- Direct forest management expenses	(9.3)
- Employee expenses	(18.5)
- DEC expenses	(10.9)
- Fixed expenses	(6.8)
- Interest (expenses) / revenue	1.1
- Efficiency dividend	0.6
Profit before capitalisation & other items	2.6
Capitalisation	4.9
Other	(5.2)
Operating profit	2.2
NRA adjustment	(3.1)
Tax benefit (expense)	0.9
Net profit after tax (NPAT)	0.1

Cash flow statement

FY013	Forecast
Net cash flow from:	
Operating activities	(0.7)
Investing activities	
- Plantation establishment	(4.5)
- Other capital works	(0.6)
Financing activities	
- State equity contributions	5.8
- Laminex	1.0
- Interest revenue	1.1
Dividends	(2.9)
Total cash for period	(0.8)
Opening cash balance	22.1
Closing cash balance	21.3

Balance sheet

FY013	Forecast
Assets	
Current assets	48.7
Other non current	6.7
Plant property and equipment	20.6
Natural resource assets	330.1
Total assets	406.1
Liabilities	
Current liabilities	14.5
Provisions	2.5
Contracted obligations	43.3
Total liabilities	60.3
Net assets	345.8
Equity	345.8
Total liabilities and equity	406.1

Appendix 2 – 2012–13 State budget forward estimates

The forward estimates listed below are as reported in the 2012–2013 State Budget and do not reflect the latest forecasts for FPC and the impacts of the efficiency dividend announced by Government in the 2012–2013 State Budget. Refer to comments in the Business Management, Efficiency Dividend section.

Profit and loss statement

FY013	Forecast
Revenue	
- Harvest revenues	105.2
- Production and delivery expenses	(57.7)
Gross profit	47.5
Other revenues	0.4
Less:	
- Direct forest management expenses	(9.4)
- Employee expenses	(13.7)
- Restructuring costs	(2.0)
- DEC expenses	(11.5)
- Fixed expenses	(7.8)
Profit before capitalisation and other items	3.5
Capitalisation	2.4
Other	(1.7)
Operating profit	4.2
Tax benefit (expense)	(0.8)
Net profit after tax (NPAT)	3.4

Cash flow statement


FY013	Forecast
Net cash flow from:	
Operating activities	3.7
Investing activities	
- Plantation establishment	(5.7)
- Other capital works	(0.6)
Financing activities	
- State equity contributions	1.3
- Laminex	1.0
- Interest revenue	0.3
Other cash	
- CSOs	4.7
- Other cash	1.0
Dividends	(1.1)
Total cash for period	4.6
Opening cash balance	13.9
Closing cash balance	18.5

Balance sheet

FY013	Forecast
Assets	
Current assets	84.9
Other non current	28.0
Plant property and equipment	13.6
Natural resource assets	299.5
Carbon asset	6.8
Total assets	432.8
Liabilities	
Current liabilities	16.6
Provisions	2.0
Contracted obligations	58.7
Total liabilities	77.3
Equity	355.5
Total liabilities and equity	432.8

Appendix 3 – Table of acronyms

Acronym	Definition
AFS	Australian Forestry Standard provides comprehensive regulations in relation to forest management practices.
DAFF	Department of Agriculture, Fisheries and Forestry (Commonwealth)
DAFWA	Department of Agriculture and Food Western Australia (State)
DEC	Department of Environment and Conservation
EMS	Environmental Management System conforms to international standard ISO14001 and is structured around 17 elements that are grouped under the <i>continuous improvement cycle</i> of five basic management actions.
EOI	Expression Of Interest for native hardwood logs for processing.
FMP	Forest Management Plan guides the forest management practices and sets out the broad strategies, performance indicators and measurable outcomes for forest management of Western Australia state forests over a ten-year period.
FSC	Forest Stewardship Council sets international standards for responsible forest management and practices.
FSID	Forest Science and Industry Development
FTE	Full Time Equivalent in relation to employee numbers.
HA	Hectares of land
LVL	Laminated veneer lumber is a high-value engineered wood product made from plantation pine timber.
MRA	Mount Romance Australia is a leading producer of sandalwood beauty products.
PDRS	Performance Development Review System
SDP	Strategic Development Plan outlines the strategic plan for the FPC to achieve its financial, industry, environmental and social objectives over the next five years.



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