



Statement of Corporate Intent 2016-17



Forests - Djarlma

When the great Waugal created the boodja (land), he ensured that there were wirrin or spirits to look after the land and all that it encompassed. Some places such as the kaart (hills) and ngamar (waterholes) boya (rocks), bilya (rivers), boorn (trees) were created as sacred sites and hold wirrin, both warra (bad) and kwop (good). Noongar believe that the spirits of their ancestors live in the forests. The ancestral spirits of their demanggar (grandparents) are there to give them their healing and their food. Everything in Noongar boodja has a purpose; if the forests are not preserved and maintained then they will have no ancestral spirits to guide them and give them sustenance and healing, the forest spirits will go to sleep forever and Noongar will become sick in both mind and body.

(Courtesy of the South West Aboriginal Land and Sea Council)

Forest Products Commission

Level 1, D Block
3 Baron-Hay Court
Kensington
Western Australia 6151

Phone: (08) 9363 4600
Fax: (08) 9363 4601
Email: info@fpc.wa.gov.au

www.fpc.wa.gov.au



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Agreement

The Statement of Corporate Intent 2016–17 describes how the Forest Products Commission (FPC) intends to achieve its financial, industry, environmental and social objectives. 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 level of performance expected from the Commission over the 12 month period ending 30 June 2017.

The Statement of Corporate Intent is consistent with the Strategic Development Plan which details 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 this Statement of Corporate Intent.

When unforeseen circumstances arise, the document may be amended by agreement of both parties. The respective parties agree to collaborate when addressing significant issues.



Hon Mia Davies MLA
Minister for Forestry



Ross Holt
Chairman
Forest Products Commission

Overview

Our legislation

The Forest Products Commission (FPC) was established by the Western Australian Government in November 2000. It is a statutory authority governed by the *Forest Products Act 2000* (the Act) and sections of the Forest Management Regulations 1993. The FPC is responsible for the sustainable management and development of Western Australia's timber industry using native forest, plantation and sandalwood products on land owned or leased by the State.

The Act outlines the functions and principles to be undertaken by the FPC. Section 10 of the Act outlines 23 functions for the FPC that include:

- Support industry development;
- Advise the Minister on forestry policy; and
- Perform commercial functions of growing, harvesting and selling forest products.

Section 12 of the Act specifies the principles on which the Commission is to act whilst performing its functions. The FPC must try to ensure a profit that is consistent with the planned targets is made from the exploitation of forest products while ensuring:

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

The principles of ecologically sustainable forest management are described in the *Conservation and Land Management Act 1984* and in the Forest Management Plan 2014–2023 (FMP). They include requirements that the decision making process should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations and that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations.

The FPC also has obligations under the *Conservation and Land Management Act 1984* (CALM Act). It works extensively with the Department of Parks and Wildlife to deliver on these obligations. The financial and operational working arrangements are formalised through a Memorandum of Understanding as required at Section 10(1) (l) of the Act.

Overview

Our 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.

Our mission

To contribute to Western Australia's economic and regional development through:

- 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.

Our values

The FPC operates responsibly, ethically and sustainably. 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 providing a safe workplace for our staff and contractors and put the wellbeing and professional development of our people at the forefront of our business.



Our business

There are three key business areas in the FPC. They are Plantations (softwood), Sandalwood, and Native Forest.

To align with government goals the FPC has three strategic goals:

- Deliver healthy forests for future generations;
- Facilitate a viable forest industry to deliver social and economic benefits to Western Australian communities, particularly in the regions; and
- Ensure efficient, effective and safe delivery of business outcomes.

The Strategic Objective for each operational area is:

- Plantations:
Enable a competitive softwood manufacturing sector based on the southwest softwood industry hub. This will require an ongoing sustainable plantation estate with a minimum area of 60,000ha; FPC is developing a strategy to identify opportunities to achieve this objective.
- Native Forest:
Build on our social licence to operate in the forest of the South West; facilitating a transition in the Native Forests business to innovative products that will maximise the value of the available resource in State forest.
- Sandalwood:
Facilitate a sustainable and ethical sandalwood industry that creates jobs and opportunity in regional Western Australia. Manage brand confidence and recognition to enable a smooth transition to a mixed wild and plantation based industry.

These will be supported by ongoing corporate initiatives that for the next five years include a focus on;

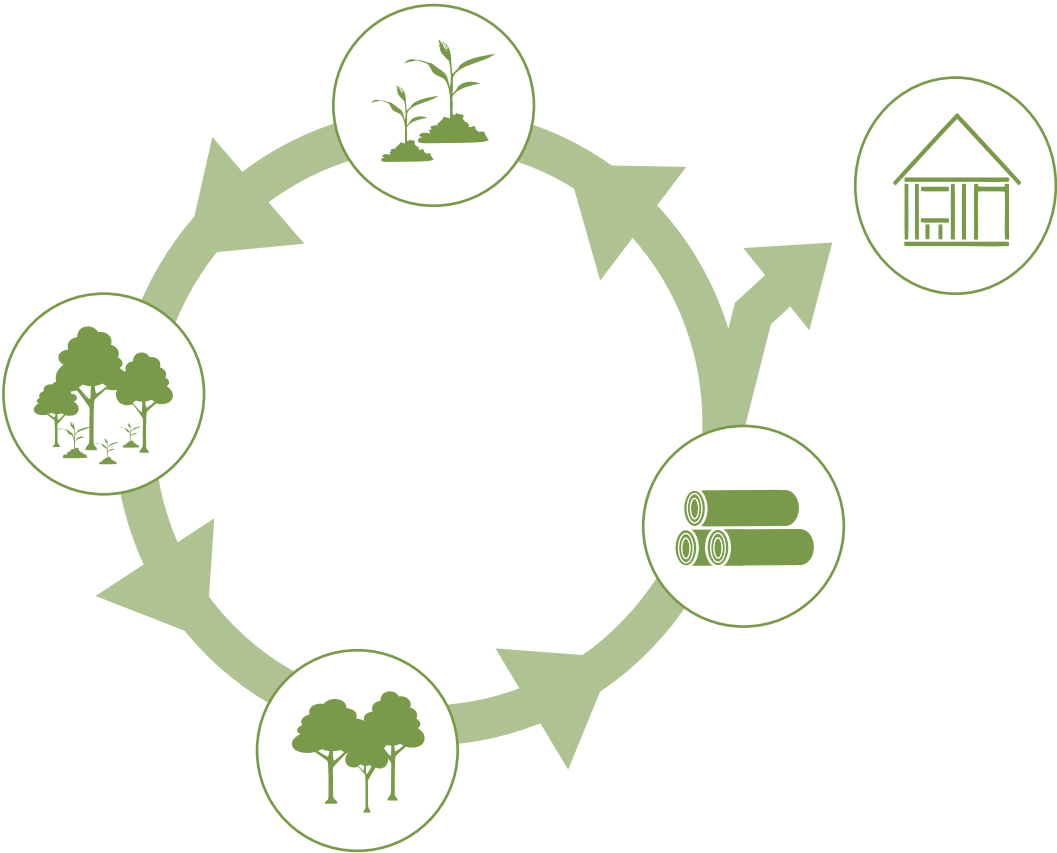
- Strengthening policy and strategy capacity to enable response to significant challenges and opportunities in the forestry sector.
- Increased collaboration with other government departments and agencies - including strategic projects such as the strategic assessment of the Perth and Peel region.
- Focus on strengthening strategies for capacity building in this unique industry.
- Focus on strengthening health and safety culture for staff and contractors.
- Building relationships with industry and industry representative bodies regarding future strategies.
- Strengthening decision making through risk management and governance systems.
- Regulatory and legislative reform program to ensure greater efficiency and flexibility.

Overview

Our sustainable forest management commitment

Our Act binds us to the principles of Ecological Sustainable Forest Management (ESFM). ESFM is a set of guiding principles that seeks to conserve biodiversity and ecological integrity, while continuing to provide ongoing social and economic benefits to the community, through the sustainable access to wood and non-wood forest resources and enjoyment of other forest values, including its use as a place for recreation. In the Western Australian context, the Conservation and Parks Commission has a statutory role to provide advice on the application of these principles to the Minister for Environment. The Conservation and Parks Commission is responsible for the Forest Management Plan 2014-23 that guides FPC activities on State Land in the South West of the State.

Our commitment to continuous improvement and management planning are integral to our everyday operations and activities. The FPC's continual improvement of its sustainable forest management system is recognised through certification to internationally recognised standards for sustainable forest management. All FPC operations are certified to the international standard for Environmental Management Systems ISO 14001. The FPC also has certification to the Australian Forestry Standard for all areas managed under the current FMP, with the exception of areas covered by active mining tenements.





Overview

Our challenges and opportunities

The Commission operates in a rapidly-changing and dynamic environment. It is influenced by domestic and global market forces and State Government policies relating to the environment, land and water use, climate change, salinity and forestry.

Key industry drivers

The financial performance of the softwood and hardwood sectors is strongly influenced by the performance of the housing and construction markets, exchange rates and the international demand for forest products. The outlook for the major settings includes a contracting housing market, but more positive signals from other drivers.

The sandalwood sector will be influenced by demand arising from growing economies in Asia and India, by the emergence of a plantation sector and further product development in food and cosmetics.

Carbon pricing and climate change: while most industries and sectors are considering negative implications of a carbon price in whatever form – forest industries continue to watch for **genuine opportunities**. Forestry and wood products represent a net store of carbon derived from the growth of trees that sequester carbon dioxide as other sectors create emissions.

The opportunity of the global forestry sector to increase its carbon sink capacity is significant. The natural process of bio-sequestration must ultimately be part of any ambitious effort to meet targets that will limit emissions.

Climate change is also posing real and significant threats to forest resources in the South West of Western Australia. **Less rainfall** is resulting in reduced productive capacity of forests and plantations as well as an **increased fire risk** that poses a direct threat to the resource. Renewable energy generation from forest thinning may pose an innovative solution as a fire risk reduction strategic alternative to prescribed burns.

Independent third party certification is increasingly sought after. The driver to achieve certification can be market and community expectations. There is an opportunity in the Western Australian context for third party certification to be used to position our products in the market as sustainable alternatives to cheaper imports from unsustainable sources.

Where the 20th Century was focussed on steel, industry publications are increasingly talking about the potential for the 21st Century to be about innovative use of engineered wood products. These products include veneer block, laminated veneer lumber, finger jointed products, and cross laminated timbers that have a wide application of uses - from structural to decorative - and use in furniture.

There are continually new uses for wood fibres being investigated. There is potential in nanochrysaline cellulose: in New Scientist the US National Science Foundation Predict this will become a \$600 billion industry by 2020.

Our stakeholders

Engagement with stakeholders is an integral part of the FPC's operations and is embedded in its core values. Stakeholders are those people and organisations who can influence FPC's outcomes, have an interest in, or are affected by the FPC's activities. In particular, the FPC acknowledges that engagement with Aboriginal people is essential for protecting their rights and values.

Effective stakeholder engagement assists the FPC to achieve an environmentally sustainable, renewable and commercially viable forest products industry. It is also essential to ensure stakeholders' needs and interests are consistently, transparently and meaningfully considered in FPC's activities and to ensure the success of ongoing operations.

FPC categorises its stakeholders as follows:

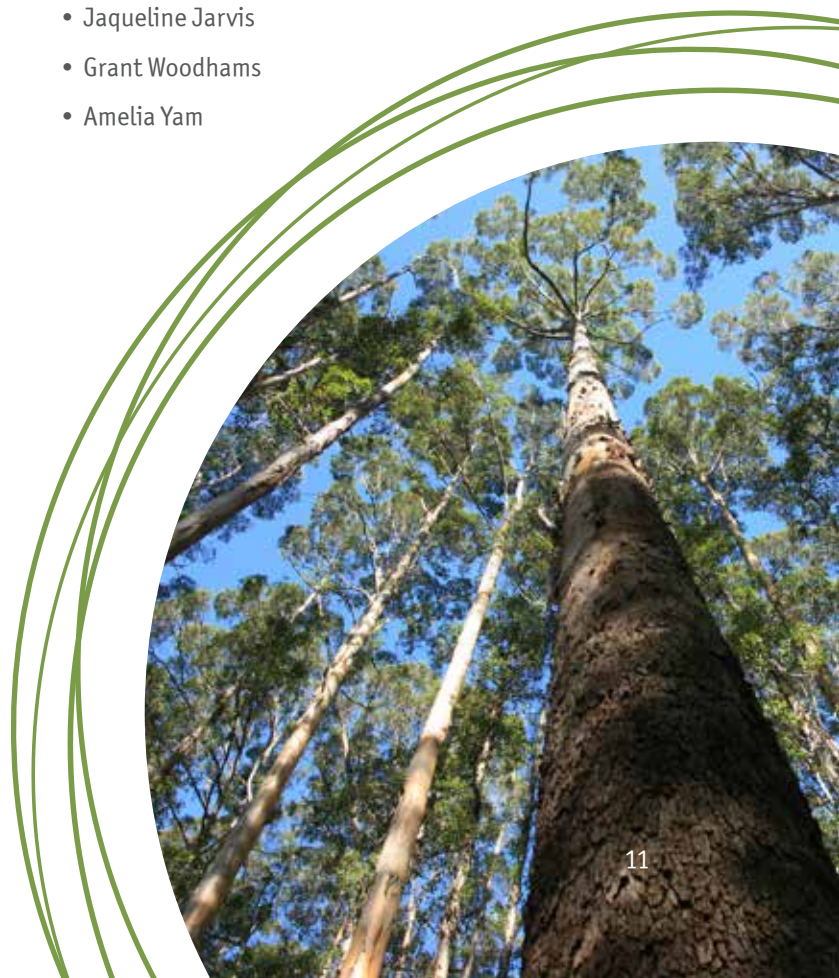
- Contractors
- Community groups
- Industry organisations
- Research institutions
- Suppliers
- Customers
- Aboriginal organisations
- Government
- Media
- Members of the public

Our Commissioners

- Ross Holt (Chairman)
- Ewald Valom (Deputy Chairman)
- Robert Pearce
- Geoffrey Totterdell
- Jaqueline Jarvis
- Grant Woodhams
- Amelia Yam

Our Executive

- General Manager
- Gavin Butcher
(Director Policy and Strategy)
- John Tredinnick
(Director Forest Operations)
- Ron Lucas
(Director Finance and ICT)
- Chris Stansbury
(Director Corporate Governance and Planning)



Summary of goals, strategies and planned achievements for 2016-17

The Strategic Objective for each of the operational areas as outlined in the Strategic Development Plan 2016-17 to 2020-21 are:

- Plantations

Enable a competitive softwood manufacturing sector based on the South West Softwood Industry Hub. This will require an ongoing sustainable plantation estate with a minimum area of 60,000ha.

- Sandalwood

Facilitate a sustainable and ethical sandalwood industry that creates jobs and opportunity in regional Western Australia. Manage brand confidence and recognition to enable a smooth transition to a mixed wild and plantation based industry.

- Native Forests

Build on our social licence to operate in the forest of the South West, and facilitate a transition in the Native Forests business to innovative products that will maximise the value of the resource in State forest.

These will be supported by ongoing corporate initiatives:

- Strengthening policy and strategy capacity to enable response to significant challenges and opportunities in the forestry sector.
- Increased collaboration with other government departments and agencies.
- Focus on strengthening strategies for capacity building in this unique industry.
- Focus on strengthening health and safety culture for staff and contractors.
- Building on relationships with industry and industry representative bodies regarding future strategies.
- Strengthening decision-making through risk management and governance systems.
- Regulatory and legislative reform program to ensure greater efficiency and flexibility.

Fire

The risk of damage to FPC's assets through wildfire is increasing with climate change impacting the South West of Western Australia. In February 2015, wildfire caused significant damage to native forest resources in Northcliffe; and the devastating Waroona fire of January 2016 resulted in the loss of 3,300ha of plantation resource. The FPC is reviewing its strategies and operations to better understand and mitigate this risk. Activities to be undertaken in 2016-17 include:

- Continuing to collaborate with DFES and Department of Parks and Wildlife on fire issues;
- Assessing insurance options, including self-insurance;
- Continue to expand markets for native forest and plantation biomass, which will facilitate the achievement of forest management objectives, reduce the risk of fire, and provide a market for products produced from fire salvage;
- Complete the regeneration and salvage trial in the Northcliffe fire area;
- Continually review of operational guidelines around fire mitigation and suppression; and Commencement of the replanting of the McLarty plantation.

The FPC has developed the planned achievements for 2016-17, in alignment with the goals and strategies outlined in the Strategic Development Plan.

DELIVER HEALTHY FORESTS FOR FUTURE GENERATIONS	
GOVERNMENT GOAL: Social and environmental responsibility – Ensuring that economic activity is managed in a socially and environmentally responsible manner for the long term benefit of the State.	
Strategy	2016-17 Major planned achievements
1. Ensure activities meet the requirements of relevant legislation and environmental standards	<ul style="list-style-type: none"> • Continue to implement Environmental Management System. • Ensure compliance with all of the operational requirements of the FMP 2014–2023 (South West native forests and plantations on State land). • Maintain AFS certification. • Maintain FSC controlled wood certification for karri forest. • Maintain ISO 140001 EMS certification. • Meet requirements of Sandalwood Licence. • Develop and implement an electronic data capture system for forest management activities. • Investigate broadening FSC standard to other parts of the business/achieving full certification for karri. • Develop and implement process for sandalwood operations.
2. Seek opportunities to better manage forests in Western Australia with Department of Parks and Wildlife	<ul style="list-style-type: none"> • Finalise Operational Working Arrangements document required by MoU; including finalisation of each of the five working groups established. • Progress delivery on strategic requirements of FMP. • Develop an arid species management plan to support the sandalwood industry and new specialty timber industry in the goldfields. • Continue working group arrangements to deliver on sandalwood regeneration, illegal harvesting, and other recommendations from the Review of the Sandalwood (Limitation of Removal of Sandalwood) Order Report and Report 35. • Plant 500 hectares of pine trees to support the strategic assessment of the Perth and Peel region.
3. Manage wildfire risk to resource	<ul style="list-style-type: none"> • Ensure karri regeneration program complies with FMP requirements to protect the long term value of resource. • Review benefits and effectiveness of wildfire prevention strategies such as thinning and utilisation of residue. • Regularly review fire policy to ensure appropriate level of suitably trained personnel are available for fire response.
4. Work with stakeholders to develop and implement long term forest management strategies	<ul style="list-style-type: none"> • Enhance <i>Community and Stakeholder Engagement Strategy</i> to ensure that a consistent and coordinated approach is adopted for stakeholder management. • Enhance media and communications strategy.

FACILITATE A VIABLE FOREST INDUSTRY TO DELIVER SOCIAL AND ECONOMIC BENEFITS TO THE PEOPLE OF WESTERN AUSTRALIA, PARTICULARLY IN THE REGIONS.

GOVERNMENT GOALS: Financial and economic responsibility – Responsibly managing the State’s finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector and Regional focus – Greater focus on service delivery, infrastructure investment and economic development to improve the overall quality of life in remote and regional areas.

Strategy	2016-17 Major planned achievements
1. Engage stakeholders to develop a long term strategic plan for the industry	<ul style="list-style-type: none"> • Develop long term strategic plan for industry to promote consensus on achieving long term forestry goals with the wider stakeholder community. • Ensure regulatory and operational change is aligned to promote long term industry viability.
2. Support employment in regional Western Australia	<ul style="list-style-type: none"> • Decentralise FPC staff to regions where appropriate. • Consolidate FPC’s sandalwood operational management in Kalgoorlie. • Purchasing policy reflecting preference for services provided in regions. • Provide information and assistance to regional private growers. • Promote industry development opportunities in regions.
3. Support industry development through partnerships with industry	<ul style="list-style-type: none"> • Continue to assess residue / lower grade opportunities to increase the commercial utilisation of low value products. For example: trial the sawmilling and peeling and use of karri and jarrah logs for engineered wood products. • Develop strategy for branding and marketing native forest timbers. • Run industry outreach program to facilitate pine and sandalwood plantations. • Support industry to collaborate among itself and with FPC’s support in a facilitating role.
4. Conduct specialty log and timber auctions to give people without a contract the opportunity to access some of the state’s unique and beautiful timbers	<ul style="list-style-type: none"> • Conduct auctions in regional locations – Manjimup and Harvey. • Develop the opportunity for arid timbers in Kalgoorlie.
5. Ensure Aboriginal people are valued participants in our business	<ul style="list-style-type: none"> • Develop strategic FPC-wide response to South West Native Title Settlement (Noongar Settlement). • Ensure the Government’s sandalwood criteria are implemented as intended to provide benefits to Aboriginal groups. • Develop Reconciliation Action Plan. • Implement Aboriginal Employment Plan.

ENSURE EFFECTIVE, EFFICIENT AND SAFE DELIVERY OF BUSINESS OUTCOMES.

GOVERNMENT GOAL: Results-based service delivery – Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians.

Strategy	2016-17 Major planned achievements
1. Improve transparency and efficiency of Financial Arrangements with Department of Parks and Wildlife.	<ul style="list-style-type: none"> • Deliver on Financial Working Arrangements document as part of Memorandum of Understanding. The document will outline financial arrangements for works undertaken, particularly with regards to firefighting activities. • Discuss future process for “hand-back” of the Gnangara, Pinjar and Yanchep pine areas to Parks and Wildlife management subject to government approval.
2. Improve the productive capacity of plantations.	<ul style="list-style-type: none"> • Continue to refine plantation silvicultural strategies to maximise potential yield growth in plantations while maintaining timber quality. • Continuing genetic improvement program with radiata pine and ensure availability for expanded program.
3. Implement Building the Softwood Estate Strategy.	<ul style="list-style-type: none"> • Deliver on planned expansion areas in accordance with the FPC Softwood Investment Program. • Develop arrangements to encourage private sector plantation investment. • Continue exit of non-economic eucalypt sharefarms and non-performing sharefarms in medium rainfall zone. • Develop Farm Forestry Program. • Non-hub sharefarm exit. • Develop Excision Policy to ensure future excisions are suitably compensated and do not result in net reduction in area of plantation.
4. Improve utilisation of Native Forests.	<ul style="list-style-type: none"> • Establish policy framework for use of residue timber. • Work on innovation strategies for industry toward engineered wood and energy products. • Establish policy framework for investment conditions around the Forest Management Plan.
5. Maintain commercial aspects of sandalwood business.	<ul style="list-style-type: none"> • Ensure new contracts are implemented effectively. • Create a commercial “transition to plantation” sandalwood strategy. • Facilitate private grower access to markets.
6. Implement initiatives in the Strategic Occupational Safety and Health Plan 2014–2017.	<ul style="list-style-type: none"> • Ensure safety and health strategies are continually improved to develop the FPC’s safety culture and awareness through consultation, communication and training. • This will include introducing strategies to progress towards compliance with AS/NZS 4801, Occupational Health and Safety Management Systems. • Ensure continued compliance with Chain of Responsibility legislation.
7. Implement initiatives in Workforce and Diversity Plan 2014-2019.	<ul style="list-style-type: none"> • Ensure capacity building within FPC to meet needs of industry.
8. Manage supply chains to support efficient, internationally competitive forest industries.	<ul style="list-style-type: none"> • Amend regulations to reflect preferred industry practice. • Seek to amend the Act to allow for the sale of land, to allow for the recycling of assets to support industry initiatives • Continue program to roll out a range of information technology solutions that will introduce new efficiencies within the administrative and operational functions within FPC. • Improve flexibility of tender processes.

Financial tables

Timber supply	Forecast 2016-17
Native forest ('000 tonnes)	694
Plantation ('000 m3)	811
Sandalwood ('000 tonnes)	2.1
Forest activity	
Native forest harvested areas (ha)	6,797
Plantation second rotation establishment (ha)	5,240
Sandalwood seedlings (tonnes of seed)	11
Other	
Foreign Exchange Rate (\$A/ \$US)	0.75

Financial outcomes	Forecast 2016-17 (\$million)
Operating revenues	132.5
Operating expenses	123.0
Operating profit	9.5
Net profit/ (loss) after tax	(4.1)
Closing cash balance	15.7
Dividend paid	0.5
Plantation establishment*	14.9
Asset Investment Program	0.6

*Include forecast for new land rental

Performance indicators	Forecast 2016-17 (%)
Return on assets (Operating profit/ total assets)	2.5%
Return on equity	2.8%
Operating profit to timber revenues	7.4%



Notes for financial accounts

Reporting to the Minister

The FPC monitors its performance based on the business activities listed in the Statement of Corporate Intent and the Strategic Development Plan. The FPC provides a report to the Minister based on performance and financial outcomes in the Half Year and Annual Reports. The Commission advises the Minister of any significant variation should it arise as required by Section 17 of the Act. The FPC has reporting obligations to the Department of Treasury. FPC submits quarterly reports on its budgets.

The FPC reports against specific measures in the Annual Report, these are:

Key effectiveness indicators:

1. Quantity of native forest hardwood log timber compared to sustainable levels and targets.
2. Harvest of green sandalwood maintained at allowable cut.
3. Extent of native karri forest regenerated relative to area harvested.
4. Timeliness of karri forest regeneration.
5. Effectiveness of regeneration of native karri forest.
6. The achievement of thinning schedules in karri forest.
7. Area of plantation established against target (pine).
8. Total payments to government.
9. Net profit before interest and tax.

Key efficiency indicators:

1. Green sandalwood roots as a percentage of green sandalwood harvested.
2. Plantation log production consistent with demand from industry.
3. Ratio of earnings before interest and tax to total assets.
4. Stumpage revenue.

Copies of FPC's major documents are available on FPC's website.

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.

The Financial Management Act 2006 and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board. The notes that accompany the financial report in our Annual Report outline FPC's significant accounting policies.

Pricing Arrangements

Pricing arrangements are determined by a number of factors including requirements under Section 59 of the Act, which prescribes the costs that are to be factored in to a price for forest products.

Dividend Policy

Dividends are calculated at 65 per cent of adjusted profit, ie. net profit after tax adjusted for the cost of plantation establishment and non-cash items of biological asset valuation and onerous contracts revaluation. Dividends are approved by the Commission and paid in the following financial year (normally in the December quarter).

Note:

The Dividend Policy was amended to include the cost of plantation establishment effective from 1 July 2014. This amendment was concurred by the treasurer in the 2014-15 Budget.

Non-commercial Activities

The FPC undertakes a range of activities to support the industry that are not directly related to its commercial functions. These activities include ministerial support, forest education, policy development, outreach programs and sponsorship.





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