

FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA

HALF-YEARLY REPORT

**Report to
31 DECEMBER 2022**

Approved by the Forest Products Commission 10 February 2023



fpc Forest Products
Commission

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1. Executive Summary

The Forest Products Commission (FPC) has had a busy first half of the financial year.

The current Forest Management Plan, which guides native forest operations concludes at the end of 2023, and the current logging model will cease with it. The new Forest Management Plan will be based on an ecological thinning model focused on forest health.

Land purchases have begun as a part of the \$350 million investment in softwood plantation expansion that commenced last financial year, with YTD purchases and commitments totalling \$30.5 million.

As at 31 December 2022, the FPC has recorded a pre-tax operating profit, excluding biological asset movement, of \$5.5 million. This result is favourably better than the budgeted forecast loss for the YTD period of \$7.6 million.

Plantations are producing sales in-line with budgeted expectations. Native Forest sales are down as a result of changes and reduced contractor capacity in the sector. Further, the quality of coupes has resulted in higher production of lower-quality, lower-priced products, thus reducing returns. Sandalwood sales have been negatively impacted by COVID and the strengthening USD, resulting in cancelled and/or delayed international sales.

However, costs incurred over the first six months of the financial year are down, lending to the better than budgeted performance. Current production processes and locations have kept costs down. Contractor capacity constraints is causing delays in forest management programs, and associated costs. Employee expenses are down due to vacancies.

A dividend has not been provided for or paid to government.

2. Introduction

The following report provides an overview and highlights of the FPC's performance for the six months to 31 December 2022, as measured against the financial and operating objectives outlined in the FPC's *Statement of Corporate Intent 2022/23 (SCI)*, and any adjustments as per *Mid-Year Review 2022/23 (MYR)*.

This Half Year Report has been prepared in compliance with s.19 of the *Forest Products Act 2000*.

3. Financial Overview

The result for the first half of the financial year is a pre-tax operating profit, excluding biological asset movement, of \$5.5 million, compared to the forecast operating loss of \$7.6 million, and the previous year's \$0.4 million loss. Refer to section 5 for a summary of financial performance.

The cash balance as at 31 December 2022 is \$17.2 million. Spending included investment of \$1.7 million in first and second rotation plantations, and \$3.1 in land purchases under the Softwood Plantation Expansion Program.

4. Key Events for the Half Year

Key events during the first six months of the 2022-23 financial year were:

Stakeholder engagement

- FPC continues to partner with a range of stakeholders across all business segments, including contractors, customers, WA Local Governments and community groups in the planning and implementation of forestry operations.
- Multi-use forestry projects and industry development initiatives have also progressed in both the Southwest and Goldfields with involvement from the FPC. This includes work with the Southwest Timber Hub on projects such as the Decision Tree farm forestry calculator and a range of Aboriginal engagement projects to improve Aboriginal involvement in the Sandalwood industry.

Plantations

- Amendments to the FPC Act gained government assent in June 2022 facilitating FPC land purchases.
- State Government investment of \$350 million for Plantation Expansion has commenced with approximately 3,500 hectares of suitable land purchased up to December 2022. Potential land for softwood plantations in 2023 has been identified to the value of \$30.5 million with either purchases completed, or deposits paid.
- The new plantations are registered with the Australian Government Emissions Reduction Fund to generate Australian Carbon Credit Units. To date, two carbon projects have been registered that encompass five plantations.

Sandalwood

- The Sandalwood Branch was consolidated in July 2022 to better coordinate delivery of outcomes across silviculture, operations, sales, and marketing.
- The Sandalwood Taskforce Report recommendations continue to be progressed in the lead up to the review of the Order in Council in 2026.
- International marketing services provided by Wescorp continue to strengthen opportunities into India and Tanzania as well as focusing on traditional markets in east Asia. We are also working to develop our first 'blended' wildwood and plantation sourced powder product into Vietnam. This includes newly branded paper bags to clearly differentiate these products from wildwood.
- A number of new Aboriginal "Dreaming" contractors have been engaged to collect dead sandalwood and undertake seed sowing and seed collection, predominantly from native title lands. This program will expand in the second half of the financial year. Opportunities to market wood sourced from aboriginal lands continue to be developed.
- Sandalwood resource and regeneration assessments were conducted during 2022 including an assessment of seedling survival from the 2012 sowing program. Inventory and remote sensing projects have been successfully

implemented in the goldfields using hyperspectral imaging technology captured from a drone to identify wild sandalwood in the field.

- The establishment of the Sandalwood Industry Advisory Group (Recommendation 8 of the Sandalwood Taskforce Report) has been implemented and the first meeting occurred in December 2022. The Sandalwood Advisory Group will drive the processes and programs to increase representation of Aboriginal businesses in the sandalwood business.

Native forests

- The Draft Forest Management Plan 2024-2033 public comment period closed in December 2022. Final drafting is expected to be completed for approval in mid-2023, prior to implementation at the beginning 2024.
- The FPC is represented, and has been actively participating, in the interagency Steering and Working Groups for the development of the next Forest Management Plan 2024-2033.
- Jarrah ecological thinning trials are nearing completion with FPC, DBCA and Industry involvement. Munro (Kirup) is completing post-thinning coppice control. Hamilton (Collie) harvesting is paused while a suitable mid-size harvesting machine is sourced. FPC is collating data on product amount and type, harvest kinematics and costs while DBCA is assessing environmental and ecological effects of thinning.

Fire management

- FPC continues to support interagency fire management structures and protection processes. This includes integrating enhanced fire mitigation measures into all new plantations and re-establishment programs while seeking input and sharing these fire protection plans and strategies effectively with local shires, fire management agencies and our neighbours.

Corporate Governance

- Pine plantation timber sales have exceeded budget by \$296,000 reflecting Year to Date sales of \$39.4 million.
- Forward budget estimates for the 2023-24 financial year and the five-year budget cycle have been completed. These plans aim to reflect recent WA Government Policy changes for Native Forests and aim to support the transition towards more sustainable practices from January 2024.
- FPC has been preparing to undertake an assessment of the physical risks of climate change to the agency. This includes the preparation of a carbon account which will underpin an emissions reduction plan. This is in line with FPC's Climate Change Adaptation Policy 60 launched in 2021-2022, and the State Government's target of net zero emissions by 2050.
- Our People and Culture strategic initiatives for Year 3 of the People Plan are on track with some re calibration required around COVID impacts, tight labour market and recruitment challenges, and shift in our strategic business direction. The key

initiatives implemented this year are designed to achieve our People Vision; Engage our People, Grow our People, future Proof Our Workforce – Right Skills – Right Staff.

- Implementation of Guardian in-cab safety systems and processes for implementation of other safety enhancements are now embedded in harvesting contracts.
- Contractor Plantation Logging launched a significant safety culture program to improve safety performance in this sector.
- Two hundred and fifty participants across the WA forest industry attended the Professional Ownership and Driver Wellbeing Program in July 2022. This program focuses on the human factors (fatigue, inattention and complacency) underlying root causes of crashes in heavy and light vehicles in the forest industry.
- The FPC continue to harden its cybersecurity posture in alignment with the WA Cybersecurity Policy and reported progress to the Office of Digital Government (DGov) in December 2022. After signing an MOU with DGov, FPC are initiating works to integrate with the state cybersecurity operations centre.

5. Financial Performance

Table 1: Financial statements and business targets

Economic Assumptions	Year to Date December 2022				Full Year 22/23	
	Actual	MYR	Variance	Last Year	MYR	SCI
Timber Supply ('000 tonnes)						
Native Forest	252	242	10	305	490	433
Plantation	463	410	53	461	871	1,029
Sandalwood	0.6	1.2	(0.6)	0.8	2.3	2.3
Forest Activity						
Native Forest harvest areas (ha)	2,539	3,234	(695)	3,268	7,700	7,700
Plantation establishment (ha)	1,292	1,563	(271)	1,437	1,954	2,239
Sandalwood seedlings (tonnes of seed)	5	12	(8)	8	22	22
Other						
\$A/\$US exchange rate	0.67	0.73	(0.06)	0.73	0.71	0.71
Financial Outcomes (\$ '000)						
Operating revenues	64.3	71.1	(6.8)	60.3	144.8	118.8
Net profit (loss) before tax ¹	5.5	(7.6)	13.1	(1.1)	(13.2)	(9.5)
Closing cash balance	17.2	16.3	0.9	6.4	17.3	11.1
Plantation establishment	(1.7)	(2.6)	0.9	(2.5)	(7.0)	(8.1)
Asset investment program	(0.0)	(0.1)	0.1	(0.0)	(0.2)	(0.5)
Softwood Plantation Expansion Program	(3.1)	(15.9)	12.8	(0.0)	(31.7)	(31.7)
Performance indicators						
Return on assets	1.9%	-2.5%	4.4%	-0.4%	-3.8%	-2.9%
Return on equity	2.2%	-2.9%	5.1%	-0.4%	-4.7%	-3.0%
Operating profit to timber revenues	8.6%	-10.7%	19.2%	-1.8%	-9.1%	-8.1%

¹ excluding biological asset revaluations