

Forest Products Commission —

Mr S.J. Price, Chair.

Mr D.T. Punch, Minister for Regional Development representing the Minister for Forestry.

Mr S. West, General Manager.

Mr A. Lyon, Director, Business Services.

Mr T. de Nobrega, Director of Finance.

Mr T. Palmer, Chief of Staff, Minister for Regional Development.

Ms D. Plummer, Senior Policy Adviser.

[Witnesses introduced.]

The CHAIR: The estimates committees will be reported by Hansard. The daily proof *Hansard* will be available online as soon as possible within two business days. Questions must relate to the operations and budget of the off-budget authority. The chair will allow as many questions as possible. Questions and answers should be short and to the point.

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by noon on Friday, 2 June 2023. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

I give the call to the member for Central Wheatbelt.

Ms M.J. DAVIES: I refer to page 284, budget paper No 2, volume 1, “Explanation of Significant Movements” and note 1, which states —

Anticipated operating loss in the 2023–24 Budget Target is higher due to a combination of sales ceasing on native forest products from 1 January 2024, offset by reduced harvesting and haulage costs, and fixed costs for anticipated work for ecological thinning for forest health.

My question is in three parts. First, is it the case that native forest product sales have already declined due to the exit of Parkside Timber and Whiteland Milling and the Forest Products Commission’s inability to supply its base contractor volumes?

Mr D.T. PUNCH: The answer to that is yes.

Ms M.J. DAVIES: Given that the answer is yes, is it likely that the anticipated operating loss in 2023–24 will be greater than what is listed in the budget papers?

Mr D.T. PUNCH: It is very difficult to predict because there is uncertainty about what the sales will be between now and the end of the year. There is some uncertainty about what the final figure will be.

Ms M.J. DAVIES: Does the minister anticipate and estimate—it is the estimates committee—that it will be greater than what is in the budget papers, given his answer to the first part of the question? Is it likely to be greater?

Mr D.T. PUNCH: I will ask Mr West to provide more detail.

Mr S. West: It is difficult; I apologise, but there is no answer because as we lose revenue from sales, we do not have the corresponding costs to deliver the products. I cannot predict what will drop quicker and in what timing; it is just uncertain.

Ms M.J. DAVIES: Referring to note 1, can the minister explain the fixed costs for ecological thinning?

Mr D.T. PUNCH: I will defer to Mr Andy Lyon and ask him to provide a response.

Mr A. Lyon: The fixed costs would be for the contract management for ecological thinning activities that will be occurring.

Ms M.J. DAVIES: Note 2 on the same page refers to the estimated actual reflecting reduced plantation thinning due to the low availability of harvest and haulage contractors. Can the minister explain why there is low availability? Essentially, I want to know what caused it.

Mr D.T. PUNCH: I will ask Mr Lyon to respond to that question.

[2.20 pm]

Mr A. Lyon: A multitude of factors are affecting the harvest and the whole capacity at the moment. One of the main ones is the low unemployment rate; it is very difficult to get people into the industry. We are having issues

with bringing people into the industry, training them up and then them getting jobs elsewhere, but we are not the only industry having this problem.

Ms M.J. DAVIES: Is the FPC undertaking specific initiatives with industry to try to rectify that, given that this is a significant risk for the business?

Mr A. Lyon: Yes, we have a national campaign—actually, it is international as it includes New Zealand as well—looking for harvest contractors, personnel and equipment that would be willing to come to WA and operate here. We actually have one company that is working in WA at the moment that came from Queensland.

Ms M.J. DAVIES: When did that effort begin? When was it identified as an issue and when did that begin?

Mr A. Lyon: That effort is ongoing at the moment. Off the top of my head, the national and international campaign started a couple of months ago. It is ongoing; there are still adverts out there at the moment.

Ms M.J. DAVIES: This may have been said earlier and I may have missed it: has there been success in attracting new haulage contractors into Western Australia as a result of these efforts or is it too early to say?

Mr A. Lyon: It has been successful in stimulating leads for us to talk to. The campaign that we are talking about at the moment has not itself brought anybody in. The people we brought in from Queensland was as a result of an effort from not just the FPC but also industry, and that stimulated us to go wider with a campaign to see whether we could attract more capacity.

Ms M.J. DAVIES: How much is the FPC setting aside for these campaigns? Are they internally funded?

Mr D.T. PUNCH: I am advised that the campaigns are funded from internal sources.

Ms M.J. DAVIES: Can the minister advise how much has been set aside for the campaign and how long it will run for?

Mr D.T. PUNCH: I am advised that there is not a set amount for the campaigns; they are funded on an as-needed basis and they are ongoing.

Ms M.J. DAVIES: Where would we see that reflected in the budget in terms of campaign or communications costs?

Mr D.T. PUNCH: I will ask Mr Lyon to comment.

Mr A. Lyon: At the moment, it has been a very minimal cost—it has been only the cost to advertise in the newspaper and electronic media. The cost so far has actually been below any expenditure limits. It is a national campaign but it is still just a matter of a few thousand to get the adverts out.

Ms M.J. DAVIES: Given the challenge that is facing the industry in being able to manage this, is it considered that there needs to be increased expenditure on these campaigns?

Mr D.T. PUNCH: This is a very fluid environment with the labour pressures that we have in Western Australia and nationally. I have every faith that the Forest Products Commission can make judgements about when and how it needs to advertise to support the campaigns or contractors that it needs.

Mr P.J. RUNDLE: I refer to page 281 of budget paper No 2, volume 1, and to the budget item “Revenue to General Government Sector” and the line item below, “Dividends”. Paragraph (a) states —

In determining the dividend payment to general government, Net Profit After Tax may be adjusted based on other factors as permitted by relevant legislation.

Can the minister explain the projected increase in dividend payments post-2023–24?

Mr D.T. PUNCH: Dividends are paid based on 75 per cent net profit after tax. The FPC will not pay dividends in 2022–23 and 2023–24 due to a lack of net profit after tax, reflecting the decrease in revenue from native forest offsetting any surplus from plantation and sandalwood operations. The FPC will revise the out year forecast in the 2024–25 budget process based on a finalised forest management plan 2024–2033. We are in a period in which we are leading up to the forest management plan, and that plan will have a material impact.

Mr P.J. RUNDLE: My next question is: what are those factors going to be? Is the changeover from the native timber scenario et cetera the main reason that those dividends will be reducing?

Mr D.T. PUNCH: The government has signalled its policy intent. The forest management plan is due shortly, and that will signal what the operating environment will be in the out years.

Ms M.J. DAVIES: I refer to the table on page 281 of budget paper No 2, volume 1, and specifically to “Revenue from Operations” under “Government Trading Enterprise Information”. Could the minister advise what portion of the FPC’s revenue comes from timber taken from Alcoa’s mining operations and whether there are any risks to this revenue across the forward estimates?

Mr D.T. PUNCH: I will ask Mr Lyon to respond.

Mr A. Lyon: The native forest operations and the Alcoa take is not split up in the FPC budgets like that. We can trace operations, but we do not separate out revenue from a sawlog. When sawlogs are sold, they are not treated differently because of where they come from.

Ms M.J. DAVIES: Wouldn't that quantity be known under the agreement with Alcoa and, therefore, you would be able to trace the revenue that comes through the FPC? I just need an explanation. Sorry; I realise that I am a former forestry minister, but it has been a little while. I do not understand how you cannot trace or have an understanding about where your revenue is coming from.

Mr D.T. PUNCH: Although a quantity might be extracted from a particular location, the value of that will not be realised until logs are sold. Logs are sold as a complete group of logs rather than from a specific location.

Ms M.J. DAVIES: The second part of the question was whether, from that perspective, there is any anticipated risks in terms of the Alcoa component of that. Does the FPC anticipate any changes in what is coming from the Alcoa operations?

[2.30 pm]

Mr D.T. PUNCH: There is no identified risk at this point.

Ms M.J. DAVIES: I refer to page 285, paragraph 3 under "Income Statement". It states that the current fixed costs are included to reflect the capacity required to undertake future ecological thinning work. I think the question has already been answered around what the fixed costs relate to. That is the contract management. Perhaps the minister could clarify that for me. If that is not correct, please provide an itemised account of the current fixed costs that are reflected there. The second part of the question is: what quantum of future ecological thinning work was assumed in the 2023–24 financial year to determine those fixed costs?

Mr D.T. PUNCH: The extent of the ecological thinning will be determined through the forest management plan, but I will ask Mr Lyon to give the member the detail for the first part of her question.

Mr A. Lyon: The fixed costs that are assumed here are actually just the fixed costs that we currently have. As we are waiting on the forest management plan to see what will be done in the future, the fixed costs carried forward are just current fixed costs for contractor management capability.

Ms M.J. DAVIES: Sorry, I missed the last part of the response about what the fixed costs relate to.

Mr A. Lyon: It is the contractor management of harvesting activities. The current capacity at the moment is carried on in fixed costs until the new forest management plan comes out, and then it will be allocated against whatever is in the new forest management plan.

Ms M.J. DAVIES: Will the preparation work—the environmental planning and assessment reports—for that ecological thinning be undertaken by the Department of Biodiversity, Conservation and Attractions or Forest Products Commission?

Mr D.T. PUNCH: I have to refer that to DBCA until the plan comes out. We do not have the plan at this stage.

Ms M.J. DAVIES: That is fine. That is all I was after.

Mr P.J. RUNDLE: I refer to page 282 and the significant issues impacting the government trading enterprise. Paragraph 4 is about plantations. The softwood plantation expansion program will not produce any revenue streams over the forward estimates period. How long will it take to produce revenue? What is the expected revenue, based on current pricing?

Mr D.T. PUNCH: The first commercial harvest is not expected until about year 10. It is very difficult to estimate what the value of that timber will be at year 10.

Mr P.J. RUNDLE: As part of this softwood expansion program, how many hectares will be required in total to satisfy the government's budget?

Mr D.T. PUNCH: I will ask Mr Lyon to answer the question.

Mr A. Lyon: That is almost impossible to answer. Whether through the purchase of land, sharefarming agreements or leveraging that funding, we will be getting as many hectares and additional plantations for the future industry as possible.

Mr P.J. RUNDLE: How much land has been purchased so far under this program and at what cost?

Mr D.T. PUNCH: It is approximately 3 500 hectares.

Mr P.J. RUNDLE: What is the cost?

Mr D.T. PUNCH: It is estimated at \$33 million.

Mr P.J. RUNDLE: How many seedlings were planted under this program in 2022–23 and how many are expected to be planted in 2023–24?

Mr D.T. PUNCH: I am very pleased to advise that 3.3 million seedlings were planted in June, July and August. An estimated 4.5 million seedlings are expected to be planted next year.

Mr P.J. RUNDLE: Has the minister given any thought to biosecurity in softwood plantations? We are getting feedback about wild pigs and other biosecurity issues. Does FPC have a plan in place to deal with those issues?

Mr D.T. PUNCH: I will ask Mr Lyon to comment.

Mr A. Lyon: I cannot comment directly on wild pigs, but we do have a biosecurity plan. The FPC works with other agencies, including the Department of Primary Industries and Regional Development and DBCA, which are the land managers for most of the land that we have. We work with them to deal with any feral pests, including wild pigs in plantations.

The CHAIR: Member for Roe, I have a little bit of guidance. You are straying away from the budget paper questions. You are being indulged at the moment.

Mr P.J. RUNDLE: In my defence, my questions are about management of the plantations.

The CHAIR: Yes, keep going. It is all right until there is a problem.

Mr P.J. RUNDLE: I will wrap it up. Does the Minister for Regional Development have any concerns, such as the farmers of Darkan have, that good-quality farmland is being used to put these plantations in place?

Mr D.T. PUNCH: Can I ask which line item is being referred to?

Mr P.J. RUNDLE: That is paragraph 4, “Plantations”.

Mr D.T. PUNCH: I am still not sure of the connection.

Mr P.J. RUNDLE: The connection is that 3 500 hectares have been purchased. I am asking whether the minister is concerned about the loss of good-quality farmland.

Mr D.T. PUNCH: No.

Mr P.J. RUNDLE: Is the minister not at all concerned that we are losing good-quality farmland in WA?

Mr D.T. PUNCH: No, because I am advised that the purchased land is a mix of land; some of it is former plantation timberland and some of it is farmland. Some former plantation timberland is being reverted to farmland. At the end of the day, the net equation might be a zero-sum game in terms of the impact on available farmland. I think the member for Roe needs to wait until the end of the process to form a view on that.

Mr P.J. RUNDLE: Once this farmland is taken over by the plantations, we will see the diminution of our regional communities. Does the Minister for Regional Development have any concerns about that?

Mr D.T. PUNCH: Chair, this is not the regional development item.

The CHAIR: Yes. It is not the right area for that question, member for Roe.

Mr P.J. RUNDLE: I might have to move on to the next division, Department of Primary Industries and Regional Development.

[2.40 pm]

Ms J.L. HANNS: I refer to paragraph (c) on page 281 of budget paper No 2, volume 1. Can the minister outline how the farm forestry program operates and who can apply for the program?

Mr D.T. PUNCH: Yes, I can. I thank the member for Collie–Preston. The farm forestry assist program supplies seedlings to farmers and landholders to plant pine trees on their land, up to a maximum of 50 hectares. The program runs each year ahead of the planting season. The Forest Products Commission received six applications for support under the farm forestry assist program in 2023. Through the program, the FPC now provides successful applicants with pine seedlings free of charge for up to 50 hectares. The landholder has full possession of and all rights to the trees as they grow, and the timber from these trees has the capacity to help support WA’s softwood industry, producing a valuable resource for the WA housing construction sector. The program helps landholders diversify their properties and continue any farming or other activities while at the same time growing pine that will provide an income into the future.

Ms M.J. DAVIES: I refer to the tenth paragraph on page 285 of budget paper No 2, volume 1, under the heading “Statement of Cashflows”. Why was the government required to pay the FPC \$11 million in an equity contribution to offset the reduction in native forest receipts? I think I heard someone say earlier that there would be a corresponding

reduction in harvest and haulage costs. Why, therefore, does the FPC need an equity injection from government to carry on?

Mr D.T. PUNCH: An equity injection is required to maintain the liquidity of the FPC in 2022–23. The FPC is expecting to carry forward any contribution underspend through the budget estimates period. To address the forecast operating deficit in native forestry and facilitate the transition to new native forest management regimes, the McGowan government provided a cash injection of \$11 million in 2022–23. That forecast operating deficit in native forestry is mainly due to a couple of items. No sales revenues or related harvesting and haulage costs are being reflected from 1 January 2024 to 30 June 24, as no contracts have been established under the new forest management plan, due to the policy changes regarding native forests. The current fixed costs are included to maintain some capacity that may be required to undertake future ecological thinning work. The equity injection will cover the reduced revenues and current fixed costs generated from native forest activities.

Ms M.J. DAVIES: Can the minister confirm that the \$11 million is in addition to the \$14 million that was provided in 2021–22, or am I reading the budget papers incorrectly? Sorry, it is not the same paragraph; it is the equity contribution in the table on page 281. It looks like the actual spend in 2021–22 was \$14.2 million, and there is an allocation of \$11 million in 2022–23. Am I reading that right? I am not sure. I am happy to be corrected.

Ms M.J. DAVIES: I ask Mr Lyon to provide the detail on that.

Mr A. Lyon: Yes, it is in addition to the \$11 million.

Ms M.J. DAVIES: Is that \$25.3 million from the consolidated revenue, or the central government, that has contributed to the FPC as a result of the decision to end the logging of native forests already, just to keep the FPC liquid?

Mr D.T. PUNCH: I will again ask Mr Lyon to give the detail on that.

Mr A. Lyon: Sorry, can the member repeat the question? I forgot part of it.

Ms M.J. DAVIES: Is that \$25.3 million a direct result of the government's decision to end logging in native forests? Has the government been required to put \$14 million plus \$11 million into the FPC to keep it liquid as a result of that policy decision?

Mr A. Lyon: That is a difficult question to answer. It would have had some effect, but native forestry was loss making before the announcement and after the announcement, so the money has been used to offset the losses in native forestry.

Ms M.J. DAVIES: Have there been equity injections of this nature in previous budget years? When was the first one made?

Mr D.T. PUNCH: The answer is no. But in saying that the answer is no, as Mr Lyon pointed out, that equity loss is a function of many things, including changes in the forestry demand. We have been through a COVID period, as the member knows, and that would have had an impact on demand and operations.

Ms M.J. DAVIES: Is that funding in addition to the Just Transition package that the government is negotiating? Is that not linked?

Mr D.T. PUNCH: The Just Transition package is being managed by the Department of Jobs, Tourism, Science and Innovation.

Ms M.J. DAVIES: That is in addition to this funding and this is just in the FPC's budget. Okay.

I refer to page 286 and am looking at the number of FTE. Can the minister advise why the number of FTE will increase by 19 between 2022–23 and 2023–24?

Mr D.T. PUNCH: Can I just clarify whether the member is referring to paragraph (c)? Is that the reference?

Ms M.J. DAVIES: Yes.

Mr D.T. PUNCH: That reflects the plantation expansion program.

Ms M.J. DAVIES: Can the minister clarify whether all those employees are related to the softwood plantation expansion?

Mr D.T. PUNCH: I am advised that not all of them relate to the softwood plantation. The commission is carrying vacancies, so there may well be some supernumerary items in there. The advice I have been given is that it is principally associated with the softwood plantation expansion.

Ms M.J. DAVIES: I want to quickly go back to the softwood plantation expansion that the member for Roe talked about. I refer to the \$41 million drawdown from the softwood plantation expansion fund on page 278. Has any of that money been spent on anything other than land acquisition and planting, such as the administration of the fund, the purchase of bush fire equipment and things like that? Is that included in that amount?

[2.50 pm]

Mr D.T. PUNCH: I will ask Mr Lyon to comment.

Mr A. Lyon: The drawdown has been for land purchases for establishment costs, and some drawdown has been used for some staff time to manage the project.

Ms M.J. DAVIES: Can the minister elaborate on how much of the \$41 million has been spent on the staffing component, given that we have just discussed the \$23 million equity injection that has been made?

Mr D.T. PUNCH: I am advised that it is a negligible amount of less than one FTE.

Ms M.J. DAVIES: Has any of the drawdown been spent on replanting areas in the estate that have been impacted by bushfires?

Mr D.T. PUNCH: No, it has not been.

Mr P.J. RUNDLE: Can the minister provide an assurance to the building industry about plantation timber supply in the years to come? Plantations supply about 70 per cent of the pine products used in the state's housing. Given that it will be 10 years before those plantation timbers come online, can the minister provide an assurance to the building industry that those products will be provided in the meantime?

Mr D.T. PUNCH: Which line item is the member referring to?

The CHAIR: It is a bit of a stretch there, member for Roe. You did drag it back when you mentioned the 10-year time frame for the plantations.

Mr P.J. RUNDLE: I refer to page 284 and "Explanation of Significant Movements", specifically the second item. I also refer to item 1.1 under "Asset Investment Program", which is about the softwood expansion program. Can the minister guarantee that the state's building supply of pine products will be supplied by the Forest Products Commission?

Mr D.T. PUNCH: I guess it is the only port in a storm when the member is trying to do a little bit of fishing, which is what this sounds like.

Mr P.J. RUNDLE: I would not do that, minister!

Mr D.T. PUNCH: Of course, if the previous government had undertaken softwood plantation work in 2012, we would be in a much better position today with commercially harvestable pine timber. This is yet another fix-up that we are having to do because of inaction by the previous government. We have taken action. We have a 10-year period before the first commercial harvest. My understanding is that the Forest Products Commission will do everything it possibly can to keep industry supplied. We are in this position today because the previous government refused to undertake pine plantings in 2012 or even later, perhaps.

Mr P.J. RUNDLE: Just a further question —

The CHAIR: Are you sure?

Mr P.J. RUNDLE: I was only elected in 2017, so I am living in the here and now.

Mr D.T. PUNCH: I wonder who the minister was then.

Mr P.J. RUNDLE: I recall the previous forestry minister Hon Dave Kelly saying that the timber harvested from plantation supplies about 70 per cent of the pine products used in the state's housing and construction market. Can the minister assure the building industry that the FPC will be able to continue to supply those products?

Mr D.T. PUNCH: I am delighted that we have such a strong economy that reflects the very good budget management of this government. The work that is being undertaken, the demand levels that we are seeing, is a reflection of that economy. I am very positive that the FPC will do everything it possibly can to meet the supply requirements of the construction sector.

Ms M.J. DAVIES: This is my last question. I refer to page 282 of budget paper No 1. The third item under "Native Forest" refers to the new forest management plan that will commence on 1 January. I note that the government made a pre-budget announcement of \$36 million and an additional 50 FTEs, which will go to Department of Biodiversity, Conservation and Attractions and FPC to assist with implementation of the new forest management plan. How much of that funding will be directed to the FPC?

Mr D.T. PUNCH: I am advised that \$24 million will go to the FPC to implement the forest management plan.

Ms M.J. DAVIES: Is the \$24 million in addition to the FTEs or is it \$24 million and the FTEs?

Mr D.T. PUNCH: I will get Mr Lyon to provide the detail.

Mr A. Lyon: The 50 FTEs that the member referred to are all for DBCA, not for FPC.

Ms M.J. DAVIES: Is it correct that there are no additional FTEs, but that \$24 million is coming to FPC to assist in the development of the forest management plan?

Extract from *Hansard*

[ASSEMBLY ESTIMATES COMMITTEE B — Tuesday, 23 May 2023]

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Ms Mia Davies; Mr Donald Punch; Mr Peter Rundle; Ms Jodie Hamms

Mr D.T. PUNCH: It is not for the purpose of the forest management plan. It is for the provision of ecological thinning, which will be an outcome of the forest management plan.

Ms M.J. DAVIES: Sorry, I must have misread the minister's announcement. So it is not to do with the development of the FMP, but its implementation. My apologies. Thank you; I am happy to be corrected.

The CHAIR: That completes the examination of the Forest Products Commission.

[3.00 pm]