

Forest Products Commission —

Ms M.M. Quirk, Chair.

Mr D.J. Kelly, Minister for Forestry.

Mr S. West, General Manager.

Mr A. Lyon, Business Manager.

Ms C. Maharanthi, Acting Director, Finance.

Mr M. Chmielewski, Senior Policy Adviser.

Mr L. Clarke, Senior Policy Adviser.

Ms N. Arrowsmith, Chief of Staff, Minister for Forestry.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is my intention to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 1 June 2018. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

I give the call to the member for Cottesloe.

Dr D.J. HONEY: I refer to the "Asset Investment Program" on page 241 of budget paper No 2. The table refers to land that was purchased for \$14.6 million over four years for softwood timbers. I am intrigued about why the government needs to buy land for softwood plantations.

[9.40 pm]

Mr D.J. KELLY: There is a softwood plantation strategy for the supply of plantation softwood and we have two state agreements that require us to provide timber. That supply is challenged. The previous state government put in place a softwood development strategy. Part of that strategy more plantations because if we are removing them and not replacing them, over time we will run out of softwood. We have continued to support that plantation strategy and that is why there is nearly \$15 million in the budget for the acquisition of land for the establishment of softwood plantations. That is a bit of an overview. I am happy if Stuart wants to give us a bit more detail on that strategy.

Mr S. West: I thank the minister. Another key element is the plantations in the Gngangara estate. There is a broader government initiative to reduce stresses on the water resource there. Based on that reduction in the existing estate and the impact of significant fires, it is effectively just to build back to a core level of estate size that is necessary to sustain the industry. The fires and the removal of access to the Gngangara estate are key drivers for that.

Dr D.J. HONEY: I understand why we produce softwood off government lands, but I would have thought that softwood is available from private providers and that would not require the government to buy lands. I understand why we manage timber off state forests and on other state land, but I do not understand why we are buying further private land for this purpose when surely there are private providers of softwood timber.

Mr D.J. KELLY: There simply is not the supply available to replace the very substantial plantations on the Gngangara Mound, for example. It simply would not be possible, at the prices that are anticipated, to substitute plantations from private suppliers. I am happy for Stuart to give some more detail on that answer.

Mr S. West: It is actually quite surprising that there is no significant private investment in Western Australia on softwood plantation. There is not really an alternative source of private plantation, but there are relatively small areas of industrial or corporate scale investment and there are some farm-forestry areas. All those are captured and committed to primarily the domestic resource and there is really no alternative effectively because of competing opportunities for landholders to utilise other crops on their land.

Mr D.J. KELLY: The Forest Products Commission recently announced a grants program to encourage private operators and private owners to plant timber. Stuart can outline what we have done in that regard.

Mr S. West: We have offered to subsidise in the order of \$500 a hectare for private growers particularly targeted at farm foresters, separate to industrial scale corporates that are less incentivised by these sorts of things. We have

had some interest, but we have only been doing this in the current month. There is a good level of interest, but it is surprising that even offering to contribute \$500 a hectare or to provide the equivalent for in-kind nursery seedling costs, which is about \$500 a hectare, we were still not flooded with interest and offers because there are good viable alternatives for land use here.

Dr D.J. HONEY: I am really just trying to understand this. Does that mean that in effect we are really subsidising the supply of timber? The minister indicated before that it may be due to carryover obligations under state agreements.

Mr D.J. KELLY: I would not say that we were subsidising the supply. The FPC makes a profit, so we are not providing that timber at a below-cost rate at all. As Stuart pointed out, there are so many competing uses for good land in Western Australia and other types of agricultural production are doing very well in WA. In order to encourage people to plant timber, they will make a decision about where they can get the best return. I am really pleased that FPC has looked at creative ways to encourage people to plant more timber. The softwood strategy was put together by the previous government and I think the previous government clearly came to the same conclusion that we have that if we do not plant additional plantations, there will be a serious shortage of timber.

Mr V.A. CATANIA: I understand from the minister's comments that, in the past, FPC has allowed pine supply to go to smaller mills in the south west to help them process and to keep them afloat. I understand that FPC has stopped those pines from going to those small mills in the south west and great southern because it cannot meet its state agreement obligations. Obviously, that is why FPC has received this \$14.6 million that is needed to try to meet those state agreements into the future. I understand that Wespine is prepared to give up some of its allocation to feed these small mills.

The CHAIR: That is about three questions again, member.

Mr V.A. CATANIA: Will the minister allow Wespine to supply these small mills to keep them afloat?

Mr D.J. KELLY: We have state agreements, which have been in place for a very long time, that require us to provide timber for companies like Wespine. Some of the smaller mills that the member referred to had contracts previously that allowed them to access timber when it was available. A lot of those contracts have now come to an end. FPC is working very closely with those mills and with Wespine to see whether some resource can be given up so that those smaller mills can access that timber. I know that the member's colleague Terry Redman has been quite vocal on this issue. It is a problem that, quite frankly, the previous government should have seen coming, because state agreements were in place—everyone knew that they were in place—and those contracts that the smaller mills have were for a finite period. It seems to me that nothing was done by the previous government, which should have seen this coming, to rectify the problem. We have inherited that issue and FPC is working very hard to make sure that those small mills can source timber to operate. I will ask Stuart to give some more details as to where FPC is up to with that issue.

Mr S. West: The minister is quite right. Fortunately, some of those small mills were given short-term contracts for timber supply. They are currently ending. When they were given those contracts for supply, obviously a few years ago, the outlook for timber was more optimistic, but as we have had subsequent fires, impacts on the resource and state agreement customers increasing their resource requirements, or their annual usage, the total pool of available wood has shrunk. It has got to the point at which we are pretty well at the point of equilibrium. Although those small mills are very valuable components of the supply chain and they offer some niche opportunity, the government's primary responsibility is to supply the state agreements. When the gap between the pool of resources and state agreement volumes gets very narrow, it is very difficult to supply wood beyond our primary priorities, which is the state agreement customers. Unfortunately, that is just a reality of harsh pressure and the match in supply and demand of our softwood resource.

[9.50 pm]

Mr D.J. KELLY: But have we had discussions about trying to make some additional wood available?

Mr S. West: We absolutely have, minister. I am pretty confident to say that they have all been successful, but that is subject to final confirmation. We have done that, but that has required some complex legal negotiation and agreement, because the state agreements specifically put obligations on us, representing the state, to supply to state agreement customers. We do not have flexibility when the resource is not in surplus. If that is not the case, we are not just able to say to one of our major state agreement customers, "Do you mind if we give some wood to these people?" That would not be compliant within the regulatory regime. We are working through that with the government agency responsible for state agreements.

Mr V.A. CATANIA: I refer to "Royalties for regions expenditure" on page 170 of budget paper No 3 and the \$200 000 in 2016–17 and \$300 000 in 2017–18 under "Forest Product Development". I just want to know how this funding has been spent by the Forest Products Commission. Where was that \$500 000 of royalties for regions funding allocated to?

Extract from Hansard

[ASSEMBLY ESTIMATES COMMITTEE B — Thursday, 24 May 2018]
p545b-547a

Chair; Dr D.J. Honey; Mr Dave Kelly; Mr Vincent Catania; Mr Ian Blayney

Mr D.J. KELLY: It is for the timber industry development program. It is a group that we have put together to draw up a plan for the industry. We have representatives from across the sector, and Noongar Aboriginal involvement for the first time. That is what it is doing. It will provide a report I think halfway through this year, which will, hopefully, give us a bit of a blueprint for how we grow and develop the industry.

Mr I.C. BLAYNEY: I refer to the second dot point on page 241 of budget paper No 2, volume 1, and the land that has been bought to replace the burnt-out country. Will the new land being bought to replace the burnt-out plantation at Myalup fully address the expected shortage in pine production in coming years?

Mr D.J. KELLY: It must be getting late in the evening. Member for Geraldton, I am struggling to hear the question.

Mr I.C. BLAYNEY: Sorry. I do not have good hearing either, so I should empathise.

The CHAIR: You can use the button to turn up the volume, minister.

Mr D.J. KELLY: I will borrow Mick Murray's hearing aid!

Mr I.C. BLAYNEY: Will this land that we have bought to expand the pine plantations fully address the expected shortage in about 10 or 15 years; and, if not, how much more land would we have to buy to address that coming shortfall in production?

Mr D.J. KELLY: I will throw that straight to the general manager for a response.

Mr S. West: The softwood industry strategy allows us to reinvest our own funds of \$21 million through agreement with the Department of Treasury and we believe that that will give us about 8 000 to 10 000 hectares of additional land. The softwood industry strategy refers to the requirement for an additional 10 000 hectares beyond that which we have just talked about, so a total of 20 000 hectares. It is about not only addressing the area that was in the recent fire, but also establishing an appropriately sized resource to satisfy industry needs. We are in active discussions with industry participants and other parts of the sector that operate plantation forestry in Australia about bridging that broader gap. The critical issues in the short term are twofold. One is to demonstrate that we are doing something; hence our investment in the first 8 000 to 10 000 hectares of land. The second issue is that if we do not bridge the gap in the short term, other investors will not have the confidence to come on board. That has been going on for a number of years now, certainly since 2016. It is about building confidence in the broader sector, including our softwood sawmill customers, so that they know that we are genuinely interested in the future. The numbers in the budget will not address the total shortfall, but they will go a long way towards that.

Mr V.A. CATANIA: Does the softwood strategy not have 40 000 hectares as the target that is needed for 2035?

Mr D.J. KELLY: The answer to that is yes.

Mr V.A. CATANIA: The \$14.6 million is a good start for meeting that target, but we are still well short. How does the minister think that we will reach the extra 10 000 or 30 000 hectares needed to fulfil the state agreement obligations?

Mr S. West: The areas that we plant now are beyond the current state agreements. The areas that we are investing in now are about a continuation of the softwood industry beyond the term of the state agreements. As I alluded to a moment ago, we are having discussions with the current softwood sawmill customers and other softwood forest companies that operate within Australia about them bridging the gap and finding a commercial perspective. We are talking about what our role in that will be. It could be providing seedlings or forest management or both or neither. It is about making the environment suitable for them to come along. Of course, if there is not a foundation sector for them to be prepared to invest in and expand on, they will not come. We need to demonstrate that we are doing the best we can to keep it going. We expect—we hope and we anticipate—that the heavy investment will come from the private sector.

The CHAIR: That completes the examination of the Forest Products Commission and the consideration of the estimates by this committee.

Committee adjourned at 9.58 pm
