

Forest Products Commission —

Mr P.B. Watson, Chairman.

Mr D.T. Redman, Minister for Forestry.

Mr D.J. Hartley, Acting General Manager.

Mr S.J. Melville, Executive Director, Corporate Services.

Mr S.A. Mitchell, Chief of Staff, Office of the Minister for Forestry.

Mr I.D. Rotheram, Senior Policy Adviser, Forestry, Natural Resource Management, Office of the Minister for Forestry.

The CHAIRMAN: This estimates committee will be reported by Hansard staff, and the daily proof *Hansard* will be published by 9.00 am tomorrow.

Members may ask 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 the intention of the Chairman 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. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which 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 committee clerk by Friday, 11 June 2010 so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and, accordingly, I ask the minister to cooperate with those requirements.

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 with the Clerk's office. Only supplementary information which the minister agrees to provide will be sought by Friday, 11 June 2010.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: Member for Collie–Wellington.

Mr M.P. MURRAY: Firstly, I must once again express my disappointment in the budget papers for the material devoted to the Forest Products Commission. There is very little detail available. I did not really want to know whether the carpet has been vacuumed or whether the windows have been cleaned but I would certainly like to know a bit more about what is going on in the industry. I asked the same question last year, 12 months ago. This is just a smarmy way of saying, "Stick it up your nose." We will be talking to the Auditor General about the process and what the minister's department has presented. I am very disappointed. I think it is just a slap in the face for the procedures of Parliament. I make that statement very clear.

Mr D.T. REDMAN: I take it that the member is talking about the presentation of the financials in the budget papers.

Mr M.P. MURRAY: Other government agencies certainly give some detail about their workings. If someone was to pick this up, could they tell me about the workings?

Mr D.T. REDMAN: This is a government trading enterprise. What has been presented here is consistent, as I understand —

Mr M.P. MURRAY: Where is the material relating to the workings of the department?

Mr D.T. REDMAN: This is the standardised approach for reporting on government trading enterprises. A number of sections in the budget papers relate to capital works, which is highlighted on page 813. There are also areas that relate to dividends. Again, this is how it was always presented through the former government. This is not a shift. I am aware of the question that the member asked last time, but it is consistent with that.

Mr M.P. MURRAY: I brought it up 12 months ago and there has been no change. That makes me very, very disappointed in the minister and this agency. I just think the agency is thumbing its nose at the system.

The CHAIRMAN: I think the member has put his point across.

Mr M.P. MURRAY: I refer to the delivery of services on page 813. Can the minister give us the total staffing of FPC, its future staffing for the next year and intended redundancies over the next 12 months?

Mr D.T. REDMAN: That is a general question with a bit of general information at the front, but I am happy to respond. I come back to the fact that what the member is talking about with the budget papers is standard practice for how these agencies report and that is consistent with what the former government did.

The CHAIRMAN: Minister, can we get on with the question because we have a few people who want to ask questions.

Mr D.T. REDMAN: As the member is aware—I know he is aware because he has made some comments through the media—the FPC is going through a significant restructure. It is a restructure out of necessity in that its financial affairs are in quite a parlous state. Quite frankly, we need to make some adjustments. I am sure that the member is versed in the various components of the FPC, but it is essentially made up of the native harvesting sector, which works largely out of the South West; the mature pine plantation sector, which works out of the South West and also north of Perth; and also the arid sandalwood sector. There is another area that I will loosely call the new plantation segment, which is made up of two areas. It is made up of a fee-for-service component whereby the FPC has been engaged in delivering on a fee-for-service basis, planting trees for carbon in a contract it has with Synergy. It also works with Macquarie. They essentially do fee-for-service work, as anyone else in the private sector could do.

The other part is the share farming part of the new plantation segment, which is planting in a share-farming arrangement with a number of farmers. There are 500 landowners with 800 different contracts. It covers about 42 000 hectares in total. I think 18 000 hectares of that is in eucalypt sawlog and the rest of it is in pinaster—maritime pine. The development of that share-farming sector in particular has been centred around resources that have come in from outside the agency, such as strategic tree farming, a project that ran from 2005 to 2009 and was funded for \$64 million, with half federal government funding and half state government funding. The state government component was made up of \$10 million cash and \$22 million of borrowings. It operated over about a five-year period. With the change in the federal government's position around its natural resource management funds going to Caring for our Country, there are no longer federal resources in that environmental funds area, hence there are basically no funds to fund the share-farming operation that has been in place. We still have liabilities for our contractual arrangements with the share farms that are in place now, and they amount to \$2 million to \$3 million a year; hence that, along with what has happened with the general downturn in the native forest area in terms of people purchasing furniture that is made from native forest, and also, even in the pine sector, from the mature pine sector, has had a significant impact on the Forest Products Commission's finances.

[8.40 pm]

I took the decision earlier this year to exit the new plantation segment, which is made up of the fee-for-service component—which, quite frankly, can be done by anyone else in the private sector—and the share farming component. We commissioned a task force to look at that in a bit more detail. We did look at whether there was any private sector interest in purchasing the assets, or purchasing an interest in the assets, and in essence there is not. There might be some people interested in some of the components. However, we did take that step to see whether there was a way of maintaining those jobs in those areas that the private sector might have been able to pick up on. Essentially, there is not, and we are now in the process of exiting those areas, which will have an impact on jobs. I am not in a position to be able to comment on the quantum of that. We are still working through it. Where we need to maintain capacity, we certainly want to maintain capacity around our core business—what I call the core business of native forest, the mature pine plantation and the arid sandalwood. We also, of course, not only have commitments to those contractual arrangements with the share farmers who are there, but also have state agreements that we need to make over time.

Mr M.P. MURRAY: I have a further question on the plantation issues. One thing concerns me. It is my understanding that several people have spoken to the minister personally and expressed their concerns that they have put in plantations, and then they have been told —

Mr D.T. REDMAN: What plantations is the member talking about?

Mr M.P. MURRAY: Sugar gums for some and those sorts of things. They are saying that the minister has walked away. They say that the minister said that they can have the product that is grown on their properties, but the issue is about pruning, at a cost of \$640-odd a hectare. If they cannot afford to prune it, their crop becomes worthless. Is any compensation available for those people?

Mr D.T. REDMAN: The state government, through the FPC, will meet its contractual obligations to share farmers who are there. We are going to honour that. However, let us go back to decisions that were made under the member's government. Essentially, the FPC moved into the space of this new plantation segment, and entered into a plethora of contractual arrangements—which are all different—with a whole range of farmers,

based on resources that come in from outside and based on a premise that down the track at some stage there may well be a price on carbon through a carbon pollution reduction scheme. That has not eventuated, and who can be the judge of how long it will be before that is put in place? Even under the strategic tree farming program—a \$64 million program over five years—the level of planning that was being put in place and the number of contracts that were being set up were not on a glide plane to be planted at such a pace as to reach a threshold to support an industry, even in the times when Labor was in government when money was coming out of its ears. We have had to pick that up now and deal with what is a really challenging financial situation for the FPC and make some of the hard decisions when there has been a pull back of federal funds that supported some of the early plantings in that area. Also, there have been some really difficult times for the businesses that are supported by the forest industry in the south west. That is the challenge that we face. I am advised that to get to a threshold of plantings in the medium rainfall areas to support an industry down the track, we need about \$40 million a year for 20 years. When Labor was in government it made commitments, in moving down a path, that, quite frankly, were unsustainable, and we have been left to pick that up and make some hard decisions, which, unfortunately, will have an impact on people's jobs, the quantum of which I cannot report on.

Mr M.J. COWPER: I note that on page 144, in the Treasury and Finance section, the Forest Products Commission is listed as not returning any money to the government over the next three years. Further, the next page, page 145, shows that the Forest Products Commission is committed to receiving \$3.37 million —

The CHAIRMAN: Member, it has to be a line item in this division, not in another area.

Mr M.J. COWPER: I understand. It relates to page 113 in that community service obligations are required. Can the minister shed a bit of light on what is going on at the FPC?

Mr D.T. REDMAN: I thank the member for the question. There are a couple of points to the member's question. In the budget papers, under government enterprises, it refers to dividends that are paid from government trading enterprises back to consolidated funds. The Forest Products Commission reflects no dividends paid back in 2010–11 and 2011–12. It is not until 2012–13 that it gets a dividend of \$1.5 million, and in 2013–14 of \$3.8 million. I might add that those predictions are inclusive of the restructuring process that we are currently going through with the Forest Products Commission in order to normalise it, such that it is able to make a profit and yield a return to government. If we do not take these actions, we will not even be in a position to pay a dividend. Indeed, its financial state is quite parlous to say the least. That is the reason why no dividend is paid back to government until the out years. Again, it is totally dependent on a restructure in the agency to be able to meet those costs and bring it back to core business, ensuring that we do not carry the liabilities that would make that into a negative scenario.

The member also talked about the community service obligations that the agency has. It picks up, I think, two CSOs to support, and it is a total of \$3.37 million. That is paid for two reasons. Firstly, it is because —

The CHAIRMAN: While the minister is looking through his papers, I say to the member for Murray–Wellington that I did let him get away with it before, but in future he must quote from the budget line on page 813, not from other parts of the budget.

Mr D.T. REDMAN: These payments reflect a contribution to the FPC's long-term debt servicing costs, and the CSOs relate to debt used by FPC to fund native forest infrastructure—roads, bridges et cetera—in native forests that were subsequently excluded from future harvesting following the protection of our old-growth forests policy in 2001. Secondly, there is also a CSO paid that covers interest and capital, as I understand it, for the state's matching funds to that strategic tree farming program—the \$22 million of borrowings. As I said earlier, to support the STF program, it has a CSO paid by government of \$2.3 million to offset the interest and capital costs. That is the reason that a CSO is there.

Mr M.J. COWPER: Does the native forest aspect of the harvesting process make a profit? The minister mentioned that he is still having to fund the roads and bridges that were excluded under the protecting our old-growth forests policy back in 2001. To me, it seems to be a pretty bleak future.

Mr D.T. REDMAN: The work that we have done so far—I just talked about the various segments of the FPC—suggests that we can normalise the agency. We are trying to get a normalised position—which is essentially the native forest area, the mature pine plantation and the sandalwood—to such an extent that it can turn a profit. So, yes, those areas are profitable. There is some industry development work that FPC currently engages in, and some research and development work. It would be nice if it was able to be funded out of the agency itself. I think that would be a challenge, and I am working through ways in which we can maintain a level of industry development, particularly in that medium rainfall area that is, I think, so critical and also presents an opportunity to support private sector investment in those areas.

[8.50 pm]

Ms A.J.G. MacTIERNAN: I am looking at the line that says that it is funded by internal funds and balances. I am interested in how some of those funds are acquired, particularly—this follows on from the question by the member for Murray–Wellington—the costs and returns from the harvesting of native forest. I am particularly interested in the jarrah forest. I understand from questions that we put to the Department of Environment and Conservation that the minister does in fact have agreements with DEC for the costs incurred for remediation, certainly for their parts of remediation, in every coupe. For a coupe such as Mundlimup, the costs of remediation would be known. Will the minister tell us on a coupe-by-coupe basis, before a coupe is cut, what information there is about the take from those coupes and what the costs will be, including the cost of replanting which I understand the Department of Agriculture and Food bears, and the costs the department pays to DEC for the regenerative burns?

Mr D.T. REDMAN: I will make a general comment and I might get Steve Melville to make some other comments more directed to the member's question.

It is important to look at the native forest harvesting component on a holistic basis. Under the forest management plan an area has been defined as available for harvest. The Forest Products Commission works through a process of dealing, as it can, with the coupes to harvest; in the case of jarrah it is about 131 000 cubic metres a year.

Ms A.J.G. MacTIERNAN: Is that still the same, even though the minister is saying that the demand for furniture-grade timber has gone down?

Mr D.T. REDMAN: No, I do not think all of those 131 000 cubes have been used, but there are contractual agreements with mills and so on to use that allocation.

Ms A.J.G. MacTIERNAN: So people want to buy it, even though they cannot use it; is that right?

Mr D.T. REDMAN: Yes, there are allocations that are available to certain mills that do not use all of that allocation. Right now some of those processors are finding it fairly challenging because their allocations are directly related to how much they can sell out the other side. That is also related to the grades and the ability to utilise a lower value product. I was talking about only first and second grade when I referred to 131 000 cubes. Lower grade logs potentially can be used for a range of different purposes.

Ms A.J.G. MacTIERNAN: Just explain —

Mr D.T. REDMAN: I want to make the global point that the FMP is in place, which defines the amount that we can harvest, and the FPC works through the various coupes. I think we need to be very careful in looking at an individual coupe.

Ms A.J.G. MacTIERNAN: Why?

Mr D.T. REDMAN: Because that is what is available to industry. I think the FPC makes decisions about which coupes it goes into, depending on the nature of the product that is in those coupes to meet the needs of the various processors that are there, if they are looking for a particular profile of timber products. I might get Steve to comment on that. It is therefore a very calculated decision as to how we move through it. I might ask Steve to make some more direct comments.

Ms A.J.G. MacTIERNAN: Just before he does, can I ask for some supplementary information? The minister said that timber has been allocated under the regional forest agreement that has not actually been taken up by the sawmillers because of the economic downturn. Can we get information on which allocations have not been taken up by way of supplementary information?

Mr D.T. REDMAN: Yes.

The CHAIRMAN: Could the minister repeat that?

Ms A.J.G. MacTIERNAN: I am referring to the allocations of timber under the —

The CHAIRMAN: No, I am asking the minister to repeat it, please.

Mr D.T. REDMAN: I will provide information on the allocations that various processors have and the allocations that have been taken up. I am assuming the member is talking about —

Ms A.J.G. MacTIERNAN: It is the ones that have not been taken up.

Mr D.T. REDMAN: They have an allocation and obviously if their allocation is 70 000 cubes and they use 50 000 of that, that would effectively give the member the figure; would it not? We can probably get that information from 2009–10 to date.

Ms A.J.G. MacTIERNAN: Yes; 2008–09, 2009–10 and 2010–11.

Mr D.T. REDMAN: Yes; 2010–11 is not a completed year, but I am sure we can do that. We can get the information up to this point.

The CHAIRMAN: Is the minister happy with that?

Mr D.T. REDMAN: Yes.

[Supplementary Information No B23.]

Ms A.J.G. MacTIERNAN: I think the gentleman was going to comment.

Mr S.J. Melville: The question was about how the FPC manages the individual coupes and the costs associated with those coupes. As the minister indicated, the expected requirement of all our customers is determined. That is matched with the work DEC has done in determining the available timber qualities and quantities in each of the coupes that are proposed to be harvested in the next three years and in the next year. That has been developed. FPC works with DEC to get all the various approvals that are required to undertake the harvesting operation in each one of those coupes. FPC is responsible for installing the roads, organising with the contractors to harvest, and delivering the logs to the customers. Then, following that work, the remediation and regeneration work is done in concert with the Department of Environment and Conservation. Those costs are borne by FPC, albeit the work is actually done by the Department of Environment and Conservation under a works agreement between FPC and the Department of Environment and Conservation; but the moneys are funded by the FPC.

Ms A.J.G. MacTIERNAN: But my question through the minister is in relation to each individual coupe. I understand the Forest Products Commission agreement, but that is not my question. My question is about looking at how funds are managed. The FPC looks at all of the costs associated with a particular coupe and then at the revenues, and there is a summary of the difference between the revenue and the cost of extracting that and doing the remediation. Does the FPC have that in relation to each coupe that it intends to log?

Mr D.T. REDMAN: Is the member suggesting that we take it on an individual coupe basis, rather than looking at the issue of allocations of timber under the FMP available to an industry?

Ms A.J.G. MacTIERNAN: No. I am saying that I understand the agreement, but in actually making a decision about a particular coupe, surely it is relevant how much the FPC will actually extract from it, what price it will get and what the cost of remediation will be. Surely that is something that the FPC needs to know.

Mr S.J. Melville: Through the minister: before a coupe is allocated for harvest, we get anticipated yields, both in terms of the volume and the product qualities that will come out of each particular coupe. That is work provided by the Department of Environment and Conservation to us. Then the FPC plans its harvest program based on the availability of wood that will come out of each coupe. Clearly, it is done on an economic basis. If a particular coupe does not have the projected yields that are required, then that coupe will be passed over.

Ms A.J.G. MacTIERNAN: I have a further question. By way of supplementary information can I ask for the latest figures on the proposed costs and returns on logging Mundlimup forest? We would be looking at what the FPC is expecting to get out of it —

Mr D.T. REDMAN: The member has a particular interest in this lot.

Ms A.J.G. MacTIERNAN: Of course I do. I have a long-term interest in Serpentine–Jarrahdale.

Mr D.T. REDMAN: The member for Armadale has a campaign to win!

Ms A.J.G. MacTIERNAN: I have been working in that area for a long time.

Mr D.T. REDMAN: I can guess that; with renewed interest and renewed enthusiasm!

The CHAIRMAN: Members!

Ms A.J.G. MacTIERNAN: I have a particular interest in that Jarrahdale community.

Mr D.T. REDMAN: Of course.

Ms A.J.G. MacTIERNAN: Members might recall the advocacy I put on their behalf in the years up to 2000, and acted on when we came into government. As the minister has never provided this information in answer to questions that have been asked in other places, I want to know the actual cost of the regeneration program and the replanting program.

The CHAIRMAN: Is the minister willing to give that as supplementary information?

Mr D.T. REDMAN: Can the member say that again?

Ms A.J.G. MacTIERNAN: We would like to see all of the costs brought into account, including the replanting costs and the regeneration costs; and we would like to make it clear what the actual cost of the logging will be and who actually bears the cost of logging.

Mr D.T. REDMAN: I am not prepared to give that. This is why I brought the member back to the point I raised about looking at the in globo figures around forest management in Western Australia. I do want to highlight one

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point before things finish off. When I said that some mills do not use up their full allocation, the FMP volumes and contract volumes can vary up and down from year to year, as long as at the end of 10 years the overs balance the unders. So there is a longer term look at that.

Ms A.J.G. MacTIERNAN: We are just asking the minister for the information. We are not saying whether or not he should do it. All we want to know is what his budget is for Mundlimup forest. The minister may have an explanation.

The CHAIRMAN: Members, the question is the appropriation be recommended. That completes examination of the Forest Products Commission and this committee is adjourned until 9.00 am tomorrow.

The appropriation was recommended.

Committee adjourned at 9.00 pm