



04/05 annual report

Forest
Products
Commission



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See page 124 for list of Forest
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For a copy of the full report visit
www.fpc.wa.gov.au

Or contact the Forest Products
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CERTIFIED
ENVIRONMENTAL
MANAGEMENT SYSTEM
— ISO 14001 —

Certification No. 8289
Certified 11 July 2001
Operations Division

TO THE HON KIM CHANCE MLC
MINISTER FOR AGRICULTURE, FORESTRY AND FISHERIES

In accordance with Section 66 of the *Financial Administration and Audit Act*, I hereby submit
for your information and presentation to Parliament, the Annual Report of the Forest Products
Commission Western Australia for the year ended 30 June 2005.



Murray Jorgensen

Chairman, Forest Products Commission Western Australia

Chairman's Report

The year 2004/05 has been challenging for the Forest Products Commission in a number of ways, but we take pride in the way that the developing agency has been able to deal with these challenges.

The Commission's revenue for the year was below target, a result of a number of factors, including limited access to native forest during winter and spring, market and harvesting conditions in plantations as well as market and production conditions for sandalwood. During the year, the Commission incurred the bulk of the development costs associated with establishing new plantation directions and associated investment. These factors have been managed and a small operating profit returned for the year. However, the Commission overall is reporting a loss once provisions for potential liabilities associated with South West forest restructuring are included.

The Commission has responded to these challenges through the efforts of its staff and harvesting contractors, and with the help of its valued customers, and we acknowledge all of these efforts.

The year has also been one of change and development within the 'board' of Commissioners. Mr John Castrilli, one of the Commissioners first appointed in November 2000, resigned in order to run for State Parliament. During his term of nearly four years, Mr Castrilli provided strong guidance, particularly in financial management, during the establishment of the Commission.

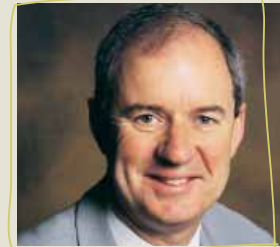
Prior to Mr Castrilli's departure, the Commission undertook a review of its internal governance, including the roles of the board and range of skills needed to fulfil these roles. In line with this review, and with the Minister's support, Ms Kellie Benda was appointed by the Governor to replace Mr Castrilli. Ms Benda brings valuable experience in corporate finance and risk management. As Chairman, I thank all members of the Commission and our Executive Officer for their contribution during the year and in particular their efforts in developing the new governance framework which will guide the operations of the Commission well into the future.

In carrying out its functions, the Commission has a difficult task balancing the commercial objectives of a government trading enterprise with the environmental and social objectives and aspirations of forestry in Western Australia. The year 2006 will be an important period to evaluate and clarify this balance. The Commission will look forward to working with the Minister for Forestry in his review of the *Forest Products Act 2000* which is due during the next calendar year.

Finally, I acknowledge the work of the General Manager, his executive team and all the staff of the Commission for their professional commitment to making forestry one of the most sustainable and environmentally friendly resource industries. Their dedication and efforts are regularly over and above the call of duty.



Murray Jorgensen
CHAIRMAN



General Manager's Review



The Forest Products Commission has, during the last four and a half years, stabilised its business directions around value adding and regional employment from native forest resources (both in the State's South West and arid regions) and in the development of plantations to meet the future timber needs of the State. These plantations will also address environmental issues in watertable rise and climate change.

The year 2004 marked the first year of operation of the new Forest Management Plan, and a period of significant adjustment for the timber industry and for the Commission. Limitations on access to native forest during winter and spring affected achievement of log delivery and revenue targets this year. Planning and approval mechanisms have been reviewed by agencies during the year, giving confidence that delivery targets will be achievable in the coming year.

It was also a year of change in pine plantations, with increasing demand for timber for Wespine and for Wesbeam's new laminated veneer lumber plant. However, shortfalls in harvesting capacity due to wildfires and extreme weather, delays in plant commissioning and inability to fulfil projected volumes by major softwood customers impacted the sale of softwoods. Improved arrangements will be implemented during the new financial year.

It was particularly significant for the Commission when agreement was reached to provide forestry services on a fee-for-service basis with the Commonwealth Bank of Australia. Commonwealth Securities' (CommSec) Premium Plantations '05 project is made more significant in that it is the first private plantation project aimed at growing eucalypt sawlogs - with the potential to create more local jobs and value adding from a high value sawn timber product.

This and the Commission's ongoing plantation projects span a region from Esperance on the south coast to Moora in the Mid-West. During 2004/05 our staff documented comprehensive plans for tree farming and industry development in different geographic areas of this huge region. The plans seek to align industry development with the environmental needs and the climatic and biological capacity of each region. These plans have formed a useful basis for consultation with local and State Government agencies, catchment groups, landowners and industry.

This time of change and planning for the future has been challenging for staff of the Commission who have continued to work extremely hard to achieve results. Thank you to all Commission staff as well as the contractors and customers who have supported the Commission throughout the year.

A handwritten signature in black ink, which appears to read "Paul Biggs". The signature is written in a cursive, flowing style.

Dr Paul Biggs
GENERAL MANAGER

Business profile

The Forest Products Commission Western Australia, was established in 2000 as a State Government Trading Enterprise responsible for managing the State's forest resources in the best possible way to maximise social, environmental and economic outcomes. The Commission:

- harvests and sells logs and forest products from State-owned native forests;
- harvests and sells logs and forest products from State-owned plantations;
- regenerates (re-plants) State-owned native and plantation forests;
- manages trees on farms in cooperation with land owners;
- provides advisory and plantation management services to plantation investors;
- identifies new sources of funding to encourage plantations in low to mid-rainfall areas;
- identifies new and better ways to grow and harvest forests and to maximise the value of all forest products;
- provides strategic advice to Government regarding forestry in Western Australia; and
- works with industry to find high-value uses for Western Australian timbers that create more jobs.

The Commission manages more than 260 contracts (including State Agreements) for works and services contracts and for the sale of forest products. These contracts have an approximate life value of \$2.2 billion.

This is a reduction on previous years due to the rationalisation and subsequent reduction of contracts in the native forest sector. The figure excludes contracts with landowners for sharefarming and minor contracts under \$10,000.

The seven-member Commission reports to the Minister for Agriculture and Forestry.

Our customers

Our customers encompass a diverse group of local and overseas businesses, contractors, farmers, government agencies, regional communities and the broader public.

The Commission produced and sold 1,416,666 tonnes of softwood and hardwood log timber to these customers during the year. It also established and managed plantations for a range of investors.

The plantation industry is now the Commission's largest customer and includes Wesbeam's laminated veneer lumber (LVL) plant, the Wespine sawmill, laminate particleboard and medium density fibreboard plants and Pinetec's sawmill. Output from this industry now provides the bulk of Western Australia's construction timber and panels for cabinet and furniture work.

The Commission supplies about 15 small to medium-sized sawmills and a number of craftwood-scale customers with native timber sawlogs, which are now used predominantly for high value timber. Native hardwood sawmills supply sawn timber for value-adding by furniture, flooring and joinery businesses. Some mills are fully integrated with on-site flooring and furniture manufacturing. Manufactured products are then sold to the local, interstate and international markets creating local employment.

Low grade, or residue timbers, supply local industries for domestic and industrial firewood (charcoal) as well as overseas buyers of softwood logs and woodchips for pulp and paper making. The Commission continually seeks local markets for these resources.

WA sandalwood is sold to a combination of local and overseas buyers - the largest buyer being Mount Romance Australia, which produces oil at its facilities near Albany.

Values and Objectives

Vision

To be a leader in achieving an environmentally sustainable and commercially viable forest products industry providing economic and social benefits to the people of Western Australia.

Mission

To contribute to Western Australia's economic and regional growth by:

- developing the sustainable use of the State's plantation and native forest resources;
- promoting innovation and local value adding for these resources; and
- achieving appropriate returns to the State for the use of publicly owned and Forest Product Commission-managed plantation and native forest resources.

Values

Achievement

We will deliver good service.

Innovation

We will be creative and innovative in meeting our objectives.

Leadership

We will provide leadership to assist in the development and restructure of the timber industry.

Customer Focus

We will understand and meet our customers' needs.

Environmental Responsibility

We will adhere to sustainable management in accordance with the Commission's Management of the Environment Policy.

Accountability

We will adhere to processes that are understood and measured.

Integrity

We will act honestly and ethically in accordance with the Commission's Code of Conduct.

Objectives

The *Forest Products Act 2000* establishes two objectives:

- the long-term viability of the forest products industry;
- the application of the principles of ecologically sustainable forest management set out in section 12(2) of the *Forest Products Act 2000* in the management of indigenous forest products located on public land;

and also defines the principle that the Commission must try to ensure that a profit that is consistent with planned targets is made from forestry activities whilst ensuring that these two objectives are met.

These broad objectives, and the principle relating to profit, have been further developed to provide clear goals, strategies, objectives and performance targets. They have also been aligned to be consistent with the Government's forest policies.

Plantations

Goal:

To develop the Commission's tree farm and plantation business providing forest products and environmental services at scales relevant to market opportunities and environmental needs.

NEW TREE FARMS AND PLANTATIONS

Objectives:

- For each cell, a tree farm estate of a scale that will support a competitive processing industry in the quickest feasible timeframe.
- Maximised contribution to water table control and biodiversity enhancement consistent with regional Natural Resource Management (NRM) strategies.

MATURE PLANTATION ESTATE

Objectives:

- Maximised log production and financial return from the plantation estate in both the short and long-term.
- A secure plantation estate in both the short and long-term, compatible with other land use objectives.
- An increase in private investment in pine plantations.

Native Forests

Goal:

To develop the Commission's native forest products business to produce timber for the high value manufacturing industry in Western Australia.

SOUTH-WEST FORESTS

Objectives:

- A viable and sustainable industry based on downstream processing.
- A Commission business providing timber to industry in a profitable manner matched to the resource available.
- Maximum utilisation and value adding of all timber harvested.

WESTERN AUSTRALIAN SANDALWOOD

Objectives:

- Consolidation and expansion of existing and new markets to provide stability and diversity, increased profits and appropriate levels of local value adding.
- Maintenance of sustainability.
- Expansion of the resource.

DESERT TIMBERS

The focus is on evaluation, leading to industry development.

Objectives:

- An industry processing 5,000 to 10,000 tonnes of log material for high value niche markets.
- Operations able to deliver forest products from woodland areas at a competitive price.

TROPICAL TIMBERS

Work to date has centred on research and industry development into Indian sandalwood, its host plantings and the potential for timber crops such as teak.

Objectives:

- Foster development of a tropical timber industry.

Overarching and Support Services

Goal:

Provide the necessary infrastructure and services to support goals of plantations and native forests operations.

PLANT PROPAGATION CENTRE

The Plant Propagation Centre encompasses the Commission's nursery, seed centre and genetic deployment unit.

Objectives:

- Reliable and competitive supply of seeds and seedlings (including cuttings, emblings, clones) to meet Commission and external market needs;
- Quality, genetically superior seeds and seedlings;
- Products matching market opportunities; and
- Maximum utilisation of plant propagation assets.

COMMUNITY SERVICE

As the lead agency within Government on forest industry issues, the Commission is required to assist with and service community and industry policy and development functions. Although no Community Service Obligation (CSO) funding has been received from Treasury, this expenditure is not considered to be associated with income producing activities.

Objectives:

- Efficient provision of policy advice to Government from all parts of the native forest timber industry.
- Coordinated action across the breadth of the native forest sector.

Corporate and Support Services

Corporate and Support Services include financial, business analysis, business development, information technology and human resource services across the whole agency. The strategies for this support area are:

- Provision of quality financial and management accounting services, business operations services, information technology and human resource systems appropriate and responsive to the Commission's business.
- Efficient and effective use of in-house and external service providers.
- Efficient and effective procurement and contract management service
- Structured and effective Cultural Development Program.
- Implementation of a recycling and waste management program.
- Adoption of the Government's Energy Management Policy.

Key achievements 2004/05

Major milestones in the year were:

- Western Australia joined the National Action Plan for Salinity and Water Quality enabling an injection of \$316 million of joint State and Federal Government funding into Natural Resource Management, with \$64 million available for the Strategic Tree Farming project.
- A milestone in new business development was reached when negotiations were finalised with a major investor, Commonwealth Securities (CommSec), for the Premium Plantations Project 2005 which will see eucalyptus plantations established and managed by the Commission on a sub-contracting fee-for-service basis.
- A newly commissioned laminated veneer lumber plant at Neerabup will be supplied with 4.12 million cubic metres of softwood logs by the Commission over the next 26 years. Targeted harvesting from the Gngangara mound pine plantation will help control water table levels in a supply catchment.
- The Commission established 1,178 hectares of new pine plantations and re-established 1,391 hectares (second rotation). In addition 739 hectares of new hardwood plantation was established along with 80 hectares sandalwood (*Santalum spicatum*).
- The area of native forest harvested for regeneration was 5,130 hectares. Treatments to achieve regeneration were completed for 2,130 hectares.
- A Joint Venture Agreement was developed between the Commission and the University of Western Australia (Faculty of Architecture, Landscape and Visual Arts) to carry out timber technology research.
- A Balanced Scorecard, the *FPC Infotree*, was introduced to measure, manage and report on operational and strategic performance.

Major planned achievements for 2005/06

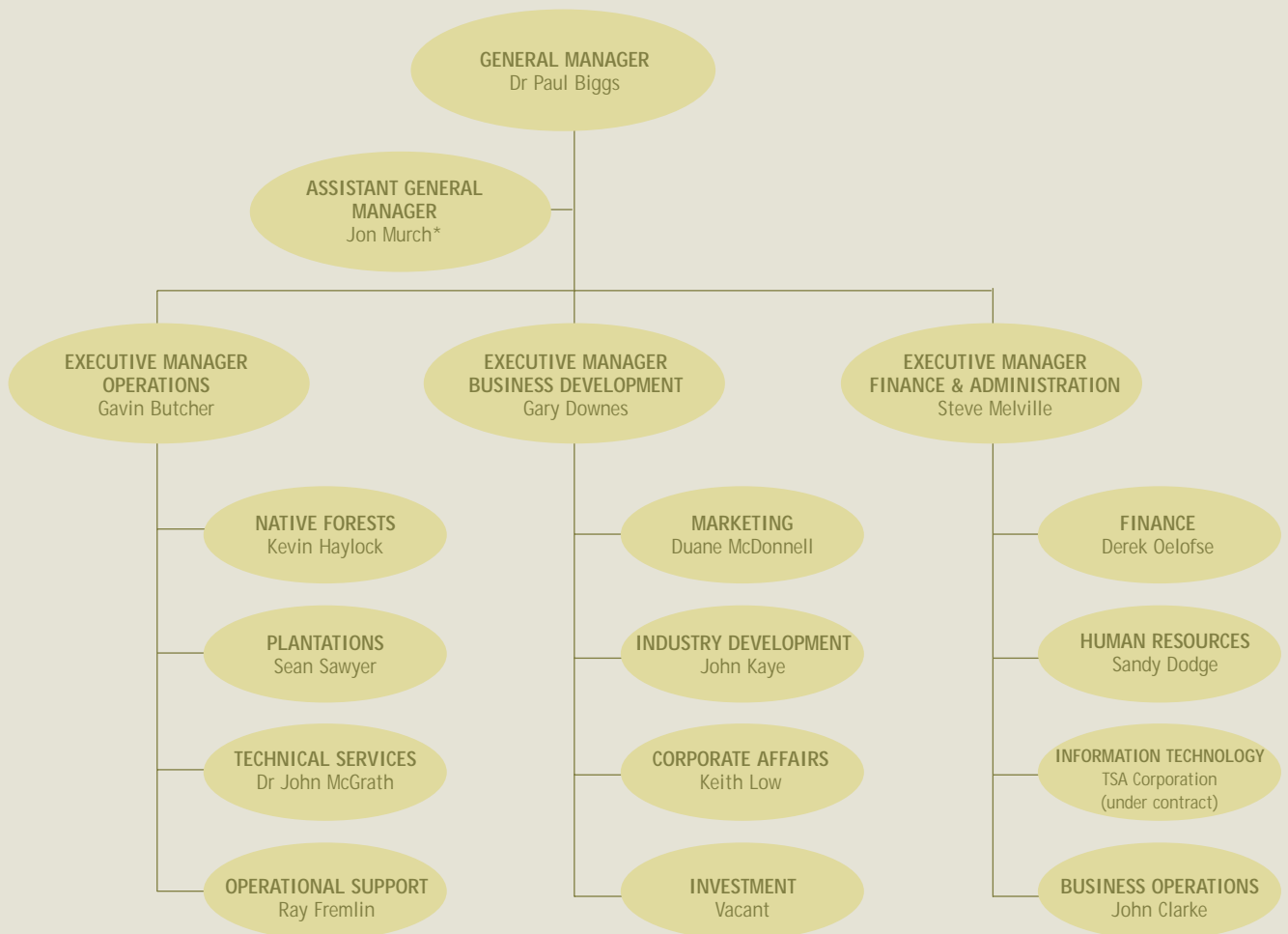
The year 2005/06 is expected to be a year of significant movement in the tree farming industry, linked both to market trends in the global economy, and to domestic strategies for natural resource management.

The new Forest Management Plan 2004-2013 provides stability in the restructured native timber and furniture industry. With this background, the major achievements planned for 2005/06 are:

- Secure major increases in external investment for tree farm projects aligned with regional NRM strategies.
- Finalise and implement regional plantation plans in consultation with communities, stakeholders and industry.
- Work towards implementation of the Australian Forestry Standard.
- Continue to enhance the Commission's Triple Bottom Line reporting system to measure, monitor and report on the Commission's social, environmental and economic performance.
- Complete the introduction of Australian equivalent International Financial Reporting Standards (AIFRS).

Organisational structure

Following a comprehensive review in 2004, the structure of the senior management group was consolidated this year and further positions finalised.



* Jon Murch retired July 2005 and this position was abolished.