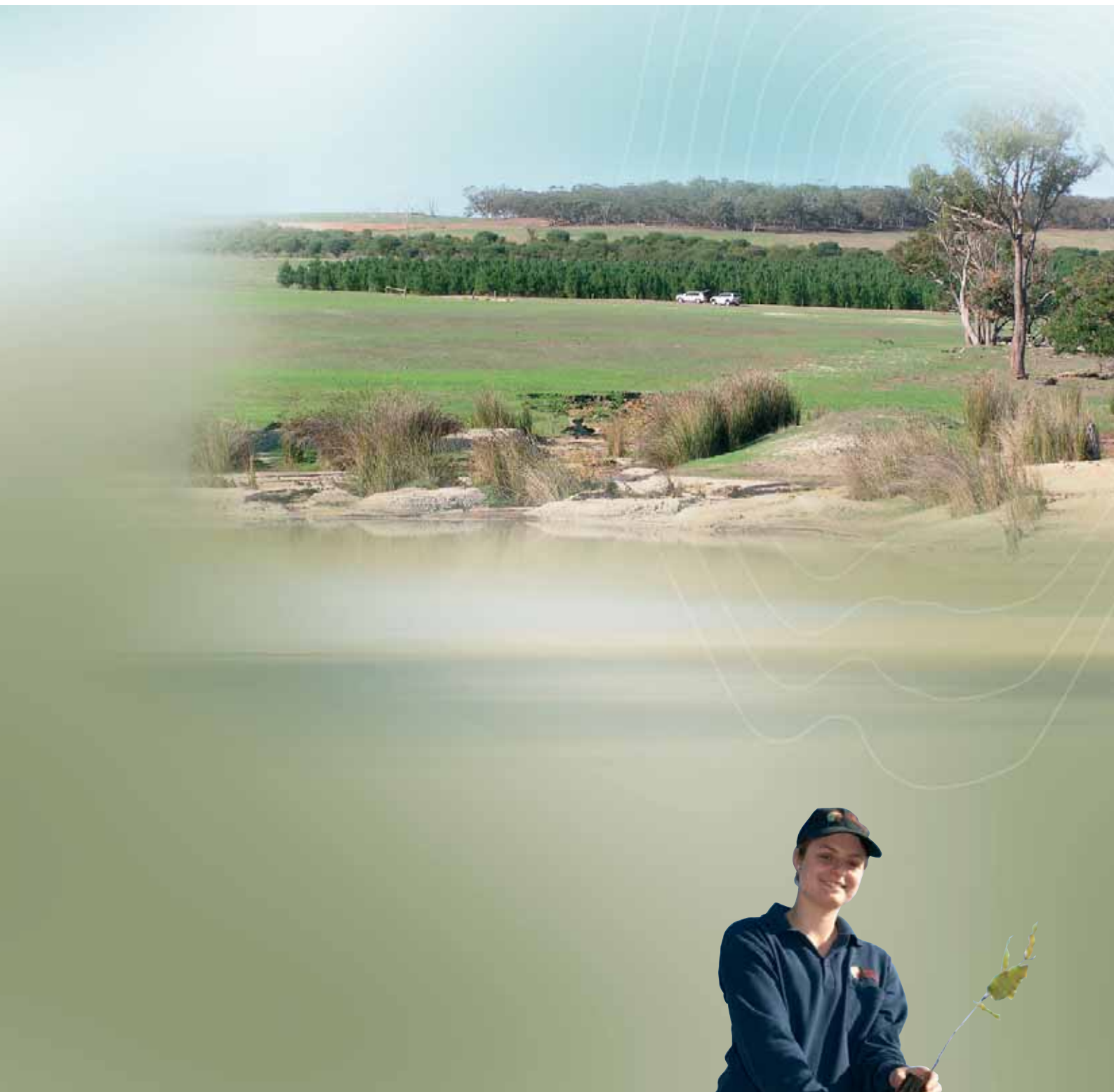
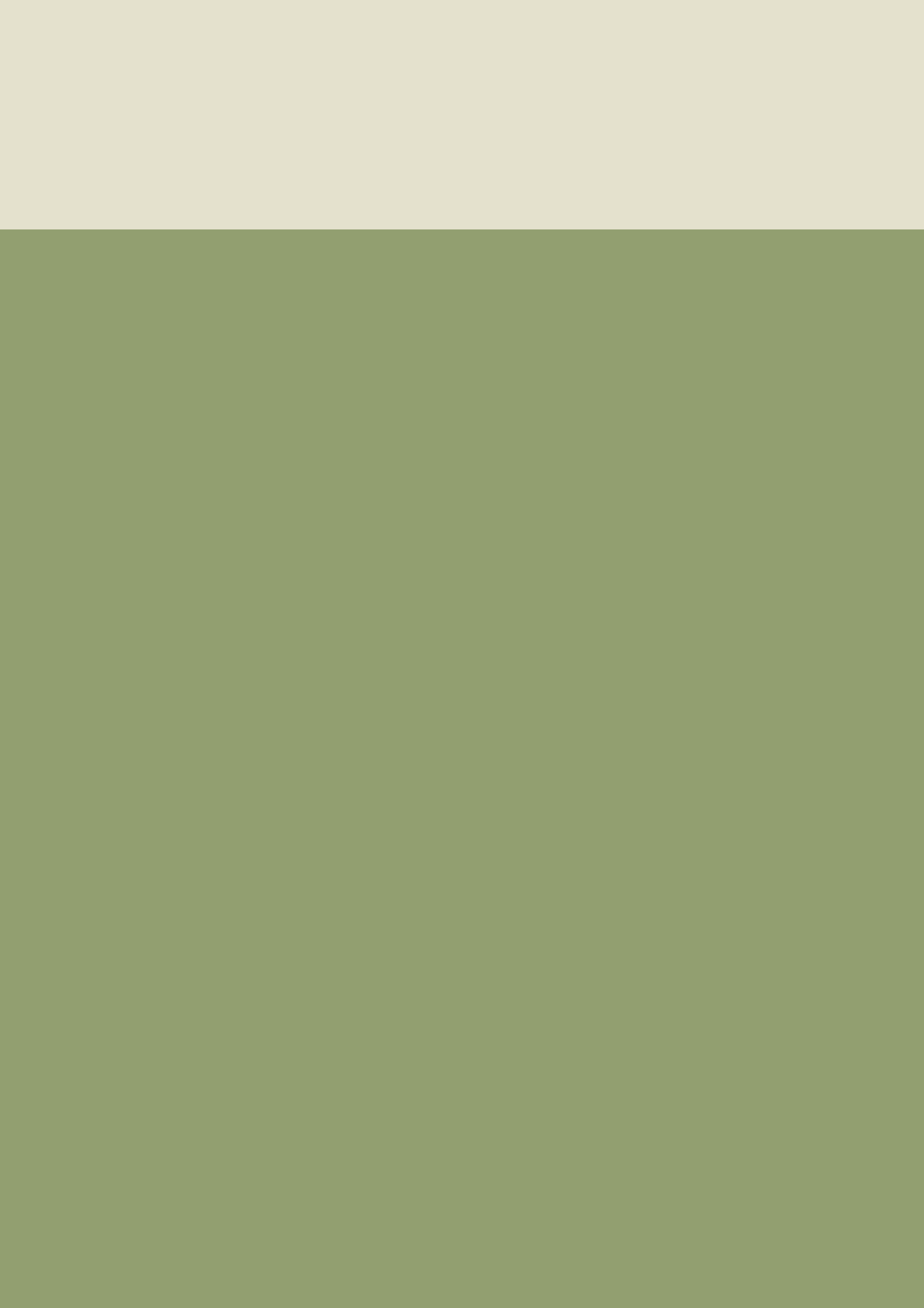


# FOREST PRODUCTS COMMISSION

ANNUAL REPORT 2005/06





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## **HON KIM CHANCE MLC MINISTER FOR AGRICULTURE AND FORESTRY**

In accordance with Section 66 of the Financial Administration and Audit Act 1985, we hereby submit for your information and presentation to Parliament, the Annual Report of the Forest Products Commission for the financial year ended 30 June 2006.

The Annual Report has been prepared in accordance with the provisions of the Financial Administration and Audit Act 1985 and other relevant written law.

**Murray Jorgensen**  
*Chairman*

28 August 2006

**Dr Paul Biggs**  
*General Manager*



## CHAIRMAN'S REPORT

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On 16 November 2005, the Forest Products Commission completed five years of business as a Statutory Authority. This milestone triggered a number of events of significance to the Commission.

### Commission revitalisation

The Commissioners have implemented a succession policy with individual Commissioners not serving for terms of longer than six to eight years. Through this policy, we plan to bring fresh approaches to the business and reduce the risk of disruption should many Commissioners retire at the same time.

One of our Commissioners, Dr Marilyn Clark-Murphy, retired on 30 June 2006, having served the Commission for five and a half years. Dr Clark-Murphy has provided the Commission with specialist financial expertise and has chaired the Audit and Risk Management Committee. Her expertise has been particularly valuable in coming to grips with the complexities of valuation of forestry assets and more recently the introduction of international accounting standards. Dr Clark Murphy also provided significant guidance relating to our monthly financial reporting and procedures for managing our risk of foreign exchange fluctuations.

As a result of the vacancy, Mr David Taylor has been appointed to the Commission from 1 July 2006. Mr Taylor is also Chairman of the Perth Market Authority, and will take over as Chairman of the Commission when my six-year term expires on 16 November 2006.

### Statutory review

The second major event is the statutory review required under the *Forest Products Act 2000*. The Commission has welcomed the review as the appropriate mechanism to resolve some of the major issues relating to the Commission's operations such as the financing and extent of non-commercial, policy and industry development functions; and the control of land on which the Commission grows plantation timber. The Commission has also submitted a range of minor, but nevertheless important, amendments that would clarify and improve operation of the *Forest Products Act*.

### Major challenges

Looking back at the last five years, the Commission was created in a very different political and economic climate. Within three months of creation, the Commission had to manage Western Australia's largest single restructuring of the native forest timber industry, a massive reduction in the Government's timber revenue stream, participation in development of a new forest management plan, establish new major contracts and at the same time appoint a new Executive team to manage the business.

The Commission has experienced incredible difficulty in meeting financial targets in recent years through operational challenges affecting production, such as short harvesting seasons due to adverse weather conditions, increased environmental constraints, shortages in harvesting capacity, less productive native forest coupes, delays in commissioning major new industrial projects, market price and exchange rate movements and premature completion of blue gum projects. The late start to winter this year meant more available harvesting days and assisted the Commission attain or exceed most production and financial targets.

We can be proud that the challenges have been managed in a professional manner, with a high level of dialogue with other government agencies, the timber industry, downstream industry and the broader public.

# CHAIRMAN'S REPORT

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## Our future

The Commission has built a vision for growth in the plantation sector with a focus on triple bottom line benefits – environmental and social outcomes to Western Australia through the greatest use of commercial timber production. We have greatly increased our capability to deliver forestry services to non-government investors, and the Premium Plantations project with CommSec in 2005/06 has been a milestone in developing sawlog plantation investment in Western Australia.

Whatever the outcomes of the Minister's statutory review and other policy changes in the future, we can be sure that the Commission team will continue to deliver them with professionalism and dedication.

As this will be my last annual report, I would like to acknowledge the efforts of a wide range of people that I believe have Western Australian forest production at heart and are proud that it is one of our world's most genuinely sustainable industries. The Minister, Kim Chance, Forest Industries Federation of WA, Furnishing Industry of WA, individual Commissioners and staff of the Commission are all passionate about forestry and have worked so hard and collaboratively together to create a meaningful future for the industry.

What we plant today will be a legacy for future generations.

**Murray Jorgensen**  
*Chairman*



## GENERAL MANAGERS REVIEW

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From a financial and operational perspective, 2005/06 has delivered a mixed result. Good financial results have been achieved and a dividend of \$2.7 million has been recommended to Government. However, further improvements are needed in the fundamental business process of Government and industry to turn this result into a sustained economic performance.

Operationally, all business segments met or exceeded the minimum log production targets; however, this was only achieved in the last month of the financial year as dry weather allowed production to catch up with shortfalls in late summer and autumn. We are concerned that limitations in contractors' harvesting productivity and capacity due to labour on one hand and the regulatory and approvals process on the other will continue to make it difficult to meet production targets in "normal" years with disruption from fire or rain.

The future success of the South West Forests and Mature Plantations business segments also relies on markets for non-sawlog timber and strong prices for the sawlogs. In these areas, the Commission has not been able to establish markets for much more than small quantities of jarrah, marri and pine residue, and there is still significant work required with pine sawlog customers to establish a viable business model for the future growth of pine plantations in the South West.

In new plantations, significant gains were made this year with improved financing structures. The Commission secured a fee-for-service contract with CommSec to deliver forestry services under "Premium Plantations 05". This was an important step towards investment in sawlog plantations, but substantial extra work is now required to secure ongoing investment into the future.

Significant gains were also made with the Strategic Tree Farming Project under the National Action Plan for Salinity and Water Quality (NAP). Full agreement to joint Federal-State funding was achieved, and from 2006 onwards the State contribution comes via the Consolidated Fund rather than from borrowings. This is a substantial improvement to the financing structure for the Commission; however, as with the other gains outlined above, the continuity of this outcome is not yet assured. The Commission will be working strongly with regional bodies, State and Federal governments to secure the necessary funding commitments to continue this important work.

During the past two or three years, the Commission has implemented major reforms in response to the new Forest Management Plan and has sought to recreate a profitable business structure in line with the new regime. We are now seeing improved financial results and dividend to Government and this achievement is a reflection of the hard work and dedication of all the staff in the Commission and I thank them for this.

We look forward to working with governments, industry and the community to ensure that this result is sustained.

Lastly I extend our thanks to Murray Jorgensen for his guidance and encouragement as the Commission's inaugural Chairman. Over six years Murray has applied his broad range of experience and interpersonal skills to guide the Commissioners and the Executive through the difficult path of establishment, restructuring and development of strategies for the future. His efforts have ensured that the Government has a sound forestry business with integrity and good governance capable of delivering the outcomes required of Government policy.

**Dr Paul Biggs**  
*General Manager*

# BUSINESS PROFILE

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The Forest Products Commission Western Australia was established in 2000 as a Statutory Authority with commercial functions.

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 216 contracts (including State Agreements) for works and services and contracts for sale of forest products. These contracts have an approximate life value of \$2.2 billion, excluding contracts with landowners for sharefarming and minor contracts under \$10,000. New initiatives this financial year include the establishment of panels of contractors and improvements in internal systems. These have significantly reduced the number of contracts, improved coordination of contract works programs, reduced time spent on administration and also enabled more effective monitoring of expenditure on contract works.

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



## OUR CUSTOMERS

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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 1,529,496 tonnes of softwood and hardwood log timber to these customers during the year – a seven per cent increase on the previous financial year. It also established and managed plantations for a range of investors.

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

The Commission supplies approximately 15 small to medium-sized sawmills and a number of craftwood-scale customers with sawlogs, which are now processed predominantly into high value timber products. Mills supply a valuable local industry with timber for flooring and joinery as well as indoor and outdoor furniture manufacturers with a focus on production for interstate and overseas export.

Low grade, or residue timbers, supply local industries with 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 by-products of sawlog operations.

The Commission manages the WA sandalwood industry and is the largest single producer of sandalwood in the world. Traditional markets of Taiwan, Hong Kong and China are the largest consumers, importing more than 60 per cent of annual production, largely for the manufacture of incense and joss sticks. Other significant Asian markets include Malaysia, Singapore, India and Thailand. The largest local buyer is Mount Romance Australia, which produces sandalwood oil at its facilities near Albany.

# VALUES AND OBJECTIVES

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## VISION

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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

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

1. Developing the sustainable use of the State's plantation and native forest resources;
2. Promoting innovation and local value adding for these resources; and
3. Achieving appropriate returns to the State for the use of publicly owned and Commission-managed plantation and native forest resources.

## VALUES

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### 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

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The *Forest Products Act 2000* establishes two objectives:

1. the long-term viability of the forest products industry;
  2. 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 while 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.

### 1. 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.

#### 1.1 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.
- Maximise contribution to water table control and biodiversity enhancement consistent with regional Natural Resource Management (NRM) strategies.

#### 1.2 Mature plantation estate

**Objectives:**

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



## 2. NATIVE FORESTS

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

### 2.1 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.

### 2.2 Arid Forests

**Objectives:**

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

## 3. OVERARCHING AND SUPPORT SERVICES

**Goal:** Provide the necessary services to support Plantations and Native Forests operations and Commission's business needs.

### 3.1 Plant Propagation Centre

The Plant Propagation Centre encompasses the Commission's Nursery, Seed Centre and Tree Breeding sections.

**Objectives:**

- The Nursery section develops systems to propagate a range of tree and plant species consistent with the aims of the Commission to enhance the timber industry in Western Australia, provide high quality tree species that are adapted to a range of environments and to supply external clients with products.
- The Seed Technologies section provides high quality seed to the nursery and external customers and develops methods of deploying genetically improved material.
- Tree breeding programs are designed to provide genotypes consistent with the commercial environmental and social objectives of the Commission tree planting programs.



## 3.2 Forest Practices Office

### Objectives:

- The Forest Practices Office develops operational controls (codes/manual/procedures), monitors the implementation of operational controls and ensures that key documents are controlled.
- The Sustainable Forest Management section in co-operation with the Department of Conservation and Land Management (CALM)<sup>1</sup> implements the requirements of the Forest Management Plan (FMP) 2004-2013, the *Forest Products Act 2000* and the *CALM Act*.
- Implements and maintains the Environmental Management System (EMS) to ISO 14001 standard.

## 3.3 Finance and Administration

### Objectives:

- Provide quality financial and management accounting services, information technology and human resource systems appropriate and responsive to the Commission's business.
- Ensure an efficient and effective procurement and contract management service.
- Prepare the Commission for migration to the Office of Shared Services following the Government's Functional Review of Corporate Services.
- Implement a coordinated Human Resource management strategy.
- Attract and retain quality staff.
- Ensure systems and processes are in place to maintain a safe workplace for all employees.

## 3.4 Research and development

### Objectives

- Demonstrate native forest management is based on sustainable practices.
- Develop new land use systems that provide for the delivery of economic and environmental benefits in the medium rainfall zone.
- Demonstrate the benefits of tree farming activities on environmental objectives (salinity, carbon).
- Provide strategic advice on the impact of Commission's tree farming activities on achieving environmental objectives.
- Maintain current timber resource information and project future resource requirements.
- Represent the Commission as an organisation operating on high standards of scientific information.

<sup>1</sup> From 1 July 2006 Department of Environment and Conservation



## MAJOR MILESTONES 2005/06

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- Improved financial result. Recorded profit before tax of \$33.2 million which included \$13.1 million from natural resource asset valuations and profit after tax \$23.4 million. (See Financial overview page 56).
- Secured Federal and State Government funding for the main phase of the National Action Plan for Salinity and Water Quality (NAP) Strategic Tree Farming project 2006-2008. The State Government has agreed to fund the State's contribution through a combination of direct funding and supporting repayments of Commission ongoing loan commitments from the Consolidated Fund.
- Completed Tree Farming and Industry Development Plans for three regions of the State. They were: Radiata Pine - South West; Maritime Pine - Esperance ; and Eucalypt Sawlogs - Central South West Recovery Catchments. A fourth plan covering Maritime Pine - Midwest will be finalised in July 2006 after consultation with the main stakeholders.

These Plans, which form the framework for the State and Federal Governments' Strategic Tree Planting Initiatives under the NAP, and underpin the Commission's tree planting activities, will be launched in August 2006.

- The Commission and CALM - in consultation with Treasury and industry – are undertaking an analysis of the likely cost of achieving Australian Forestry Standard (AFS) accreditation. The report to Government is expected in the latter part of 2006.
- The Commission has continued to refine and update its triple bottom line reporting this financial year. The main focus has been on the valuation and disclosure of social and environmental services performed by the Commission, particularly pertinent in light of the current statutory review of the *Forest Products Act*.
- The Commission completed the introduction of Australian equivalent International Financial Reporting Standards (AIFRS) this financial year, with the 2005/06 Financial Statements issued under AIFRS.
- The Premium Plantations Project 2005/06 with investor Commonwealth Securities (CommSec) resulted in CommSec requiring 641 hectares to be planted to eucalyptus plantations (*E. globulus* and *E. saligna*) on three separate properties at Boddington, McAlinden and Rocky Gully. The Commission will continue to manage the plantations on a fee-for-service basis.

# KEY ACHIEVEMENTS

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## MAJOR PLANNED ACHIEVEMENTS 2006/07

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- Deliver on the NAP program by establishing 3,600 hectares of new tree plantations in catchment areas.
- Continue to develop “fee-for-service” forestry services into the emerging carbon and salinity markets.
- Work with industry to achieve improved financial returns to plantation owners to encourage an increased radiata pine plantation estate.
- Promote regional plantation development plans outlining a strategic approach to establishing industry sustaining plantation estates, in particular the valuable sandalwood industry.

# ORGANISATIONAL STRUCTURE

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