



Forest Products Commission **Statement of Corporate Intent** 2018-2019



Forest
Products
Commission
WESTERN AUSTRALIA

Forests - Djarlma

When the great Waugal created the *boodja* (land), he ensured that there were *wirrin* or spirits to look after the land and all that it encompassed. Some places such as the *kaart* (hills) and *ngamar* (waterholes) *boya* (rocks), *bilya* (rivers), *boorn* (trees) were created as sacred sites and hold *wirrin*, both *warra* (bad) and *kwop* (good). Noongar believe that the spirits of their ancestors live in the forests. The ancestral spirits of their *demanggar* (grandparents) are there to give them their healing and their food. Everything in Noongar *boodja* has a purpose; if the forest are not preserved and maintained then they will have no ancestral spirits to guide them and give them sustenance and healing, the forest spirits will go to sleep forever and Noongar will become sick in both mind and body.

(Courtesy of the South West Aboriginal Land and Sea Council)

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AGREEMENT

The Statement of Corporate Intent 2018-19 describes the agreement between the Forest Products Commission and the Minister for Forestry on the intended priorities and performance.

The Statement of Corporate Intent is consistent with the Strategic Development Plan which details a five year view of the Commission's planning.

In accordance with the *Forest Products Act 2000* and with the Treasurer's concurrence, the Minister for Forestry and the Forest Products Commission agree to the content of the Statement of Corporate Intent.

When unforeseen circumstances arise, the document may be amended by agreement of both parties. The respective parties agree to collaborate when addressing significant issues.



Hon Dave Kelly
Minister for Forestry



Ross Holt
Chairman
Forest Products Commission

ABOUT US

The Forest Products Commission (FPC) is responsible for the sustainable management and development of Western Australia's forest products industry, using native forest, plantation and sandalwood products on land owned or leased by the State. We are committed to helping the forestry industry provide direct employment to around 6,000 Western Australians working in timber related industries. These industries include forest management, harvesting, primary processing and manufacturing sectors.

Our Act

The FPC was established by the Western Australian Government in November 2000. It is a statutory authority governed by the *Forest Products Act 2000* (the Act) and sections of the *Forest Management Regulations 1993* to separate the commercial and land management functions that coexisted in the Department of Conservation and Land Management.

Section 10 of the Act outlines twenty three functions that include:

- Supporting the development of the timber industry;
- Advising the Minister on forestry policy; and
- Performing commercial functions of growing, harvesting and selling forest products.

Section 12 of the Act specifies the principles on which the Commission is to act whilst performing its functions. The FPC must try to ensure a profit that is consistent with the planned targets is made from forest products while ensuring:

- the long term viability of the forest products industry; and
- the principles of ecologically sustainable forest management are applied in the management of indigenous forest products located on public land.

The principles of ecologically sustainable forest management are described in the *Conservation and Land Management Act 1984* and in the *Forest Management Plan 2014–2023* (FMP). They include requirements that *the decision making process should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations* and that *the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations*.

The FPC also has obligations under the *Conservation and Land Management Act 1984* (CALM Act) and works extensively with the Department of Biodiversity, Conservation and Attractions to deliver on these obligations.

Our owner

We are a statutory authority of the Crown. We report to the Minister for Forestry. 75 per cent of our surpluses are returned to State Government as dividends and the remainder is reinvested in the forest industry.

There are four State Agreement Acts for supply of forest products:

- Wood Processing (Wesbeam) Agreement Act 2002 – Wesbeam
- Wood Processing (WESFI) Agreement Act 2000 – Laminex
- Dardanup Pine Log Sawmill Agreement Act 1992 – Wespine
- Silicon (Kemerton) Agreement Act 1987 – Simcoa

Other products are sold by way of contract as outlined in s59 of our Act. All tender and contract processes are in accordance with Department of Finance and State Supply Commission policies.

Our regulator

The activities of harvesting and regenerating on State forests are regulated by the Department of Biodiversity Conservation and Attractions (DBCA). The principal mechanism that sets standards for the south west forests of Western Australia is the *Forest Management Plan 2014-23*. This document was produced by the Conservation and Parks Commission, assessed by the Environmental Protection Authority and approved by the Minister for Environment. We also operate on private land which is governed by various State laws and industry codes of practice.

Sandalwood harvesting is regulated under the *Sandalwood Act, 1929*, soon to be replaced by regulations under the *Biodiversity and Conservation Act 2016*.

Our relationship with the DBCA is expressed through a Memorandum of Understanding as required at section 10(1) (l) of the *Forest Products Act* and tabled in Parliament (2001). Operational working and financial arrangements are agreed through separate documents. The FPC provides funding for the DBCA to undertake specific activities to contribute to *Commercial Forestry Activities* as detailed in the State Budget Papers.

The State of Western Australia and the Commonwealth of Australia signed the *Regional Forest Agreement for the South West Forest Region of Western Australia* on 4th May 1999. This document established a 20-year framework to manage the use of Western Australia's south-west forests to implement effective conservation, forest management and forest industry practices.

Operational activities are guided by a set of policies, procedures and work instructions that are developed and agreed with the DBCA and the Forest Industries Federation of Western Australia (FIFWA) where required.

To demonstrate commitment to environmental and quality standards, the FPC is certified to internationally recognised standards. Certification is achieved after rigorous, ongoing auditing and assessment by an external, independent auditing firm. Current certification includes:

- [AS4708:2013 - Australian Forestry Standard \(AFS\)](#)
- [Program for the Endorsement of Forestry Certification \(PEFC\)](#)
- [ISO14001:2004 – Environmental Management System \(EMS\)](#), the international standard for environmental management systems.

Our industry

The forest products industry is a small but important industry in Western Australia. It is worth approximately \$1.4 billion each year and employs around 6,000 people working in timber related industries. Most of this value and jobs is created in regional Western Australia.

The industry includes growing and management of plantation and native resources, harvest and haulage and processing and manufacturing.

The FPC works with industry representative groups, particularly FIFWA, the Australian Forest Products Association (AFPA) and Forest and Wood Products Australia (FWPA).

Looking forward

It's an exciting time to be in the forestry industry.

We are adopting new technologies to develop products from a renewable resource, while ensuring future generations can enjoy the benefits of our forests.

A changing resource base and global market competition will continue to provide challenges, but there will also be new opportunities through innovation.

In the sandalwood and native forest sectors, we will work with industry and regional communities to develop new products that are based on lower grade wood. This will be achieved with technologies that allow cost effective manufacturing of high value products and increased utilisation of our forests.

The branding and marketing strategies we are working on with industry will highlight and add value to the unique properties of our timbers.

In the softwood sector, the industry will continue to benefit from changes in construction techniques and preferences for timber as a carbon friendly building product.

The ongoing development of engineered wood products and the use of timber in pre-fabricated flooring, walls and roof systems are providing new markets for plantation timbers.

Globally, a broad range of new products and uses for wood fibre are being developed. These include bio-energy, bio-based chemicals, and cellulosic fibres.

Of these new markets, the demand for renewable energy is expected to provide an opportunity for use of forestry residues and parts of a tree that are not suitable for high-value products. However, there are still a number of factors that affect the commercial viability of using wood for renewable energy, including collection and transport logistics, and the market price for energy.

Climate change is expected to continue to affect forests and plantations in Western Australia. Adaptive management can mitigate the damaging impact of climate change on our native forests and maintain the growth in plantations. However, the area suitable for commercial plantation development will reduce under scenarios of continued winter rainfall decline and temperature increase.

The increased risk of bushfires in regional Western Australia will also continue to be a key risk. We will continue our commitment to work with the industry and other government departments to protect forest assets from fire.

Our vision

To build and maintain a sustainable and commercially viable forest products industry that provides economic and social benefits to the people of Western Australia.

Our mission

Our mission is to contribute to Western Australia's economic and regional development through:

- Sustainable harvesting and regeneration of the state's forest resources
- Promoting innovation in forest management and local value adding for timber resources
- Generating positive returns to the state from all the FPC forests.

Our values

The Commission operates responsibly, ethically and sustainably. Our products and services provide renewable resources.

We are committed to achieving results and delivering excellent service to our customers, partners, the community and each other.

We commit to providing a safe workplace for our staff and contractors, and put the well-being and professional development of our people at the forefront of our business.

Our role

We are a team of forestry professionals engaged in the industry from the seed to the product. We work with the community, industry and government to create a vibrant forest industry.

We will create an environment of innovation to ensure that our forests are a strategic and sustainable resource for the future.

Our business

The forest products industry is an important industry in regional Western Australia. The FPC drives economic value into Western Australian regions with more than 70 per cent of its staff being regionally based and, the planned purchase of more than \$1 billion in goods and services for harvesting and forest management, wages and salaries from Western Australian companies and people over the period of the Forest Management Plan 2014-23.

To align with government goals the FPC has three strategic goals:

- Deliver healthy forests for future generations
The FPC will ensure that it upholds all principles of ecological sustainable forest management; conserving biodiversity, ecological integrity and manages forests for the community to enjoy.
- Facilitate a viable forest industry to deliver social and economic benefits to Western Australian communities, particularly in regional Western Australia
The FPC will contribute to a vibrant and economically diverse regions, the forest industry has plans for the future of a sustainable industry at National, State and Regional levels.
- Ensure efficient, effective and safe delivery of business outcomes
The FPC will remain self-sustaining and profitable and continue to invest in the long-term economic health of the industry.

The Strategic Objective of each operational area is:

Plantations

Enable an internationally competitive softwood manufacturing sector based on efficient industry hubs. This will require an ongoing sustainable plantation estate. The Softwood Industry Strategy for Western Australia completed in 2016 identifies six steps to achieve this objective.

Sandalwood

Facilitate a sustainable and ethical sandalwood industry that creates jobs and opportunity in regional Western Australia. Manage brand confidence and recognition to enable a smooth transition to a mixed wild and plantation based industry.

Native Forests

Build on community support to operate in the forests of the South West, and facilitate a transition in the Native Forests business to innovative products that will maximise the value of the resource in State forest.

These industries are supported by ongoing corporate initiatives to ensure we can respond to challenges and opportunities in the sector. This includes strengthened policy and strategy capacity, increased collaboration with stakeholders to develop future strategies.

Our strategic risks

The management of strategic risk is overseen by the Audit and Risk Committee – a subcommittee of the Commission. They include:

- Wildfire losses to forest resources
- Loss of markets
- Failure to secure land to support plantation expansion
- Lack of community support for operations in Native Forest sector
- Climate change
- Failure to meet compliance obligations and loss of environmental certification
- Potential of high risk operations causing serious injury.

Our stakeholders

Engagement with stakeholders is an integral part of our operations and embedded in core values. Stakeholders are those people and organisations who can influence outcomes, have an interest in, or are affected by our activities. In particular, we acknowledge that engagement with Aboriginal people is essential for protecting their rights and values.

Effective stakeholder engagement assists us to achieve an environmentally sustainable, renewable and commercially viable forest products industry. It is also essential to ensure stakeholders' needs and interests are consistently, transparently and meaningfully considered our activities and to ensure the success of ongoing operations.

Stakeholders include:

- Contractors
- Community groups
- Industry organisations
- Research institutions
- Suppliers
- Customers
- Aboriginal community groups
- Government
- Media
- Members of the community

Our Commissioners

- Ross Holt Chairman
- Geoffrey Totterdell Deputy Chairman
- Robert Pearce
- Amelia Yam
- Louise Duxbury
- Nick Bayes
- Vanessa Elliott

Our executive team

- Stuart West General Manager
- Gavin Butcher Director Operations
- John Tredinnick Director New Business and Innovation
- Ron Lucas Director Finance
- Andrew Lyon Business Manager

FOREST PRODUCTS COMMISSION STRATEGY

To align with government goals, the FPC has three strategic goals; key outcomes to achieve these are listed below. Given the long time frames in forestry, the FPC is currently working with the industry and community on a Timber Industry Development Plan This plan is due for completion in June 2018. The outcomes of this plan may further refine or provide emphasis to certain FPC activities.

Key Performance Indicators have been reviewed in consultation with Treasury. The end of financial year reporting at June 2018 will include results against both the existing and new Key Performance Indicators.

Deliver healthy forests for future generations

Objectives	Outcomes 2022-2023	Performance Indicators	Highlights 2018-19
<p>Work with Department of Biodiversity Conservation and Attractions in planning, harvest and regeneration activities to optimise forest values</p> <p>Ensure sufficient mechanisms are in place to manage risk and respond to wildfire and other environmental risks.</p> <p>Contribute to state and national policies and projects on Climate Change</p>	<ul style="list-style-type: none"> • Best practice environmental certification is maintained and enhanced. • Environmental and Forest Management Plan reporting meets community expectations • Work collaboratively with other government agencies and the community to ensure we implement a comprehensive fire mitigation and management strategy. • Improve the contribution to climate change mitigation for the WA forestry industry. 	<p>Key Performance Indicators to June 2018:</p> <ul style="list-style-type: none"> • Quantity of timber cut compared with allowable levels • Harvest of green sandalwood maintained at allowable cut • Extent of native karri forest regenerated • Timeliness of karri regeneration • Effectiveness of karri regeneration • Achievement of thinning in karri forest <p>New Key Performance Indicators endorsed by Treasury:</p> <ul style="list-style-type: none"> • Quantity of native forest timbers harvested compared with FMP sustainable levels and targets • Harvest of sandalwood does not exceed Order In Council • Effectiveness of forest regeneration (karri, jarrah, sandalwood) • Achievement of thinning schedules. • All aspects of road construction within guidelines. • All operations commence with required approvals. • Independent certification maintained. 	<ul style="list-style-type: none"> • AFS Certification for sandalwood • Regenerate fire-damaged areas of karri and jarrah forest in collaboration with Department of Biodiversity Conservation and Attractions. • Promote pine plantations' potential to play a key role in the Recovery Plans for black cockatoos. • Ensure Department of Fire and Emergency Service's Bushfire Risk Management Process captures plantation assets. • Reduce the threat to FPC's pine plantations through an active program of fuel hazard reduction • Deliver extension to Regional Forest Agreement with the Commonwealth Government. <p>Increase area of jarrah forest harvested for regeneration release.</p>

Facilitate a vibrant forest industry to deliver social and economic benefits, particularly in regional Western Australia

Objectives	Outcomes 2022-2023	Performance Indicators	Highlights 2018-19
<p>Community and industry are engaged in forestry planning and opportunities</p> <p>Forestry adds value in local communities</p> <p>The FPC contributes to strength of forestry industry by playing proactive role in policy development and industry leadership.</p>	<ul style="list-style-type: none"> Implement strategies identified through the Timber Industry Development Plan. The community recognises the value of forestry. Implement the Softwood Industry Strategy for WA. Implement the Sandalwood Industry Strategy for WA. Have a sustainable native forest sector where markets match the available resource. Implement Stakeholder Engagement Strategy. 	<p>Key Performance Indicators to June 2018:</p> <ul style="list-style-type: none"> Area of pine plantation established compared with target Plantation log production consistent with demand from industry <p>New Key Performance Indicators endorsed by Treasury</p> <ul style="list-style-type: none"> Area of softwood plantation established against target. Expansion of the plantation estate. Employment and social benefits maintained or increased, increased local processing capacity. Increase in low value resource delivered to and processed by local markets. Planned fuel reduction and fire break activities achieved. Timeliness of response to stakeholder concerns or complaints. All high value sawlog resource processed locally. Timeliness of response to initial requests to Ministerials and PQs. 	<ul style="list-style-type: none"> Determine viability of an Integrated Timber Processing Yard to deliver industry and community benefits in regional WA, and commence implementation if feasible. Develop and commence implementation of Wood Encouragement Policy. Deliver on private sector investment in softwood plantation expansion Establish trials for pine cuttings program for rapid genetic deployment Develop farm forestry strategy. Promote collaboration on marketing, research and local processing opportunities in the sandalwood plantation sector. Promote multiple-use activities associated with FPC forest operations.

Ensure efficient effective and safe delivery of business outcomes

Objectives	Outcomes 2022-2023	Performance Indicators	Highlights 2018-19
<p>Be financially self-sustaining</p> <p>Forestry is a safe place to work</p>	<ul style="list-style-type: none"> Have a highly productive workforce made up of multi-skilled, innovative and engaged people. Our science and innovation strategy will lead growth in our business and industry. Technology will generate efficiencies in operations. Business reporting provides timely and accurate information to managers. Safety management framework meets recognised Australian or International Standards. 	<p>Key Performance Indicators to June 2018:</p> <ul style="list-style-type: none"> Total payment to government Net profit before interest and tax Ratio of earnings before interest and tax to total assets Stumpage revenue. <p>New Key Performance Indicators endorsed by Treasury</p> <ul style="list-style-type: none"> Operating profit. Costs per dollar of revenue generated for each forest type. 	<ul style="list-style-type: none"> Focus on staff professional development. Focus on Aboriginal traineeship and employment opportunities. New technologies support log value optimisation Remote sensing technology implemented to improve efficiency and accuracy of harvest planning Identify broader national and international industry on common research and innovation trends. Develop whole-of-industry incident assessment and safety reporting.

		<ul style="list-style-type: none">• Log delivery consistent with contractual obligations.• Green sandalwood roots as a percentage of green sandalwood harvested.	
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FINANCIAL TABLES

Table 1: Financial statement and business targets

Economic Assumptions	Forecast 2018-19
Timber supply	
Native forest ('000 tonnes)	854
Plantation ('000 m3)	898
Sandalwood ('000 tonnes)	2.5
Forest activity	
Native forest harvested areas (ha)	9,950
Plantation establishment (ha)	2,908
Sandalwood seedlings (tonnes of seed)	22
Other	
\$A/ \$US exchange rate (cents)	78.4
Financial outcomes (\$ million)	
Operating revenues	143.4
Operating expenses	129.9
Operating profit ¹	13.6
Net profit/ (loss) after tax	(0.3)
Closing cash balance	20.5
Dividend paid	-
Tax Paid	2.5
Plantation establishment	8.0
Asset Investment Program ²	7.8
Performance indicators (%)	
Return on assets (Operating profit ¹ / total assets ³)	3.3%
Return on equity	3.7%
Operating profit to timber revenues	9.8%

¹ Profit before change in biological asset valuation, onerous contract and tax

² Includes purchase of land for Softwood Expansion Program

³ Total assets includes biological assets which is subject to fair value valuation measurement movements

Table 2: Asset investment program

Asset investment program (\$ millions)	Forecast 2018-19
Computers, plant and equipment	0.9
Land	6.9

Table 3: Plantation establishment

Plantation establishment	Forecast 2018-19
Hectares	2,908
Estimated expenditure (\$ million)	
Afforestation	4.3
Reforestation	3.7
Total plantation establishment (\$ million)	8.0

NOTES FOR FINANCIAL ACCOUNTS

Reporting to the Minister

The FPC monitors its performance based on the business activities listed in the Statement of Corporate Intent and the Strategic Development Plan. The FPC provides a report to the Minister based on performance and financial outcomes in the Half Year and Annual Reports. The Commission advises the Minister of any significant variation should it arise as required by s.17 of the Act. The FPC has reporting obligations to the Department of Treasury. The FPC submits quarterly reports on its budgets.

In 2018, Treasury approved 18 new key performance indicators. They are:

1. Quantity of native forest timbers harvested compared with FMP sustainable levels and targets.
2. Harvest of sandalwood does not exceed Order In Council.
3. Effectiveness of forest regeneration (karri, jarrah, sandalwood).
4. Independent certification maintained.
5. All aspects of road construction within guidelines.
6. All operations commence with required approvals.
7. Planned fuel reduction and fire break activities achieved.
8. Achievement of thinning schedules.
9. Timeliness of response to stakeholder concerns or complaints.
10. Area of softwood plantation established against target.
11. Expansion of the plantation estate. Employment and social benefits maintained or increased, increased local processing capacity
12. Increase in low value resource delivered to and processed by local markets.
13. All high value sawlog resource processed locally.
14. Log delivery consistent with contractual obligations.
15. Operating profit.
16. Timeliness of response to initial requests to Ministerials and PQs.
17. Costs per dollar of revenue generated for each forest type.
18. Green sandalwood roots as a percentage of green sandalwood harvested.

Copies of the FPC's major documents are available on the FPC's website.

Accounting Policy

The FPC's financial statements are prepared in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

The *Financial Management Act 2006* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board. The notes that accompany the financial report in our Annual Report outline the FPC's significant accounting policies.

Pricing Arrangements

Pricing arrangements are determined by a number of factors including requirements under s.59 of the Act, which prescribes the costs that are to be factored in to a price for forest products.

Dividend Policy

Dividends are calculated at 75 per cent of adjusted profit, i.e. net profit after tax adjusted for non-cash items of biological asset valuation, and onerous contracts revaluation. From 1 July 2014, the dividend calculation includes the impact of the FPC's investment in plantation establishment. Dividends are approved by the Commission and paid in the following financial year (normally in the December quarter).

Non-commercial Activities

The FPC undertakes a range of activities to support the industry that are not directly related to its commercial functions. These activities include ministerial support, forest education, policy development, outreach programs and sponsorship. These activities are funded from the profits the FPC creates from its commercial businesses.