

**FOREST PRODUCTS COMMISSION**  
Sandalwood Industry Consultation – Public Summary Report

Final Report

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**Inherent Limitations**

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## 1.0 MAJOR FINDINGS

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### 1.1 KEY FINDINGS

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- Most stakeholders who provided suggestions and or comments on FPC's present industry structure stated that they prefer this structure but only if suggested modifications were made.
- Stakeholders concerned with the incense market (agarbatti market) requested stable prices, continuity of supply, and stable quality of wild WA sandalwood products.
- All wild WA sandalwood should be processed domestically (raw wood processing and oil distillation) in WA based facilities by Australian owned companies.
- Raw wood processing by the FPC should be limited to deadwood. Oil bearing high grade greenwood should not be processed by the FPC.
- Eliminate current monopolies and conflicts of interest by increasing the number of parties involved in the wild WA sandalwood industry.
- The FPC's marketing and sales function should be mutually exclusive from the FPC's processing functions within the wild WA sandalwood industry.
- Government should not adopt policies which may undermine the perceived value of plantation WA sandalwood as it is the plantation grown WA sandalwood that will assist with the sustainability of the WA sandalwood species into the future.
- Increase involvement of pastoralists and Aboriginal communities in the wild WA sandalwood industry, particularly regeneration and conservation, and harvesting. This can be achieved by giving these parties a vested interest (either through ownership or first right to harvest) in the wild WA sandalwood industry.

### 1.2 SUPPLEMENTARY FINDINGS (not related to scope)

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- Conduct a full inventory count so as to get a clear representation of the sustainability of wild WA sandalwood.
- Increase penalties imposed on those responsible for illegal activities associated with the harvest and sale of wild WA sandalwood.
- A clear definition of ownership of the wild WA sandalwood is fundamental to any future business model, particularly on native title land. Ownership of sandalwood can easily become confusing, and is further complicated by the need to consider legal access to an area to be harvested.
- Annual harvesting quotas of wild WA sandalwood should be reduced substantially (with some suggesting it should cease altogether).

## 2.0 INTRODUCTION

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The Forest Products Commission (FPC) is a statutory authority governed by the *Forest Products Act 2000* and the *Forest Management Regulations 1993*. The FPC is responsible for the harvesting and sale of WA sandalwood from Crown land (including land subject to pastoral leases). The FPC is also responsible for the development of the native (wild) WA sandalwood industry.

The Department of Parks and Wildlife is a government department responsible for the conservation of the State's native flora, fauna and ecosystems. Parks and Wildlife is responsible for regulating and licensing the wild WA sandalwood industry on both private and public land under *the Sandalwood Act 1929* and the *Wildlife Conservation Act 1950*. Presently the FPC has a licence issued by Parks and Wildlife to harvest 2,700 metric tonnes of wild WA sandalwood per year.

The FPC currently harvests, processes, markets and sells wild WA sandalwood through contracts that expire at the end of June 2016. The expiry of these contracts is an opportunity to review the current commercial arrangements, along with the current structure and strategy of the wild WA sandalwood industry.

The FPC engaged Stantons International (Stantons) to independently manage a stakeholder consultation process on the future of the wild WA sandalwood industry. Stantons was requested to design and prepare the "Invitation for Comment" document that was sent to stakeholders. FPC reviewed and approved this document before it was distributed to stakeholders. The criteria outlined in the "Invitation for Comment" document were approved by Government.

Stakeholders were notified and provided an opportunity to submit written submissions on the future of the wild WA sandalwood industry with Stantons coordinating any direct engagement with stakeholders should there have been a requirement to seek further clarity on the consultation process.

Key stakeholders in the sandalwood industry included Government Departments, landholders, harvesters, processors, pastoralists, Aboriginal groups, and customers (domestic and international). The consultation process was ongoing over the period of July and August 2015 with analysis of submissions conducted during September 2015.

A summary of the feedback that is able to be published publicly is provided below. It must be noted that the majority of responses are Commercial-in-Confidence, and are not available for public release. Therefore the feedback is summarised in a broader context, with no specific detail given.

Not all of the submissions received focused solely on the criteria outlined in the "Invitation for Comment" document. Comments and/or suggestions that were outside the scope of the given criteria included:

- Increased penalties for illegal activities.
- Sustainability of harvest through regeneration and conservation, and reduced quotas.
- Ownership and access rights.

A summary of the feedback received on the above themes is also provided below.

### **3.0 CONSULTATION PROCESS**

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#### **3.1 CONSULTATION PROCESS CONDUCTED BY STANTONS**

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The objective of the consultation process was to notify, coordinate, receive, collate, and summarise stakeholder submissions regarding the future structure and commercial arrangements of the wild WA sandalwood industry. Feedback received will be considered by Government when deciding on the future structure and the future commercial arrangements of the wild WA sandalwood industry.

##### ***Notification to Identified Stakeholders by Email and Letter***

FPC compiled a list of interested stakeholders in the sandalwood industry and provided it to Stantons. Stakeholders identified by the FPC consisted of Government Departments, landholders, harvesters, processors, pastoralists, Aboriginal groups, and customers (domestic and international).

On the 8<sup>th</sup> July 2015 notification of the consultation process was sent to all interested stakeholders. Stakeholders were notified via email or letter (where no email address was provided). This notification was the “Invitation for Comment”, a document advising stakeholders on the consultation process, instructing stakeholders how to make a submission, the criteria their submission should address and the contact details of Stantons. This notification also informed stakeholders that the closing date for submissions would be 7<sup>th</sup> August 2015.

Prior to sending out the initial notification, Stantons contacted via telephone those listed on the interested stakeholder contacts list where a non-specific email address was given or no specific individual listed (this was mostly the case for the Government Departments and private companies listed). This was performed to ensure they were aware of the consultation process.

On 27<sup>th</sup> July 2015 a second notification was sent to interested stakeholders notifying them of the scheduled community consultations in Merredin and Kalgoorlie. This notification also stated that the closing date had been extended by one week to the 14<sup>th</sup> August 2015.

On the 12<sup>th</sup> August 2015 a third notification was emailed to stakeholders notifying them that the closing date had been further extended by one week to the 21<sup>st</sup> August 2015.

##### ***Media Advertisements Utilised***

On the 8<sup>th</sup> July 2015 the “Invitation for Comment” document was uploaded onto Tenders WA (the state tender website). During the week commencing the 6<sup>th</sup> July 2015, FPC coordinated public notifications via various media outlets such as The West Australian, The Albany Advertiser, The Kalgoorlie Miner, Timber and Forestry E-News, and Friday Offcuts. These advertisements referred interested stakeholders to the “Invitation for Comment” document on Tenders WA ([www.tenders.wa.gov.au](http://www.tenders.wa.gov.au)) by conducting a search using FPC012015 or by using “Sandalwood” as a keyword. Reference was made to the community consultation meetings in The Kalgoorlie Miner and the Merredin Wheatbelt Mercury.

##### ***Community Consultation Meetings***

Stantons coordinated the community consultation meetings in Kalgoorlie and Merredin. At these meetings a presentation was made by a Stantons representative. Time was also allocated for questions and answers at the end of the presentation. The opportunity was also given to those stakeholders who attended to have a one on one discussion about the consultation process with a Stantons representative.

**Coordination by Stantons**

Those who were interested in the process were free to contact Stantons by phone or email with any queries they may have had. During the period of consultation, Stantons received numerous phone calls on the wild WA sandalwood industry consultation process.

**Submissions Received and Summarised by Stantons**

All stakeholders willing to make a submission were instructed to provide their submission directly to Stantons either in writing or via email. They were also advised to indicate whether their submission was “Commercial-in-Confidence” or not. Where there was no indication made, follow-up contact was conducted to confirm the status. For a number of submissions where clarification was unable to be sought, the submission was deemed Commercial-in-Confidence.

A total of 48 submissions were received. Stantons reviewed all submissions made. See section 4.0 below for details of the findings, noting that specific detail is not given as the majority of submissions received were marked as Commercial-in-Confidence.

**3.2 CONSULTATION PROCESS CONDUCTED BY ABORIGINAL CONSULTANT**

A specific strategy for consultation with Aboriginal communities, organisations, and State Agencies/Departments was implemented as part of the wild WA sandalwood industry consultation process. R & E O'Connor Pty Ltd (Mr Rory O'Connor), a respected and experienced consultant in the region, was appointed to carry out the consultative process. The consultation involved groups throughout the “Gascoyne”, “Greenough” and “Goldfields” regions. These regions were identified by the FPC as wild WA sandalwood producing areas in Western Australia. Mr O'Connor contacted various organisations in order to arrange meetings, in the course of which he and an FPC officer recorded suggestions and comments.

Mr O'Connor provided a report directly to Stantons which detailed the consultation process conducted by him, and summarises the feedback from each stakeholder. Stantons have incorporated feedback per this consultation process into its report provided to the FPC.

#### **4.0 FINDINGS/COMMON THEMES AGAINST CRITERIA**

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Per the “Invitation for Comment” document, it was requested that feedback provided by stakeholders ought to reference the Government’s criteria. Stantons reviewed all submissions received and collated suggestions against the criteria.

#### **4.1 PROVIDE FINANCIAL RETURNS FOR THE STATE**

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*Government’s financial objective is to sell wild WA sandalwood for the best market price, generating returns that are at least sufficient to cover the cost of operations, provide for ongoing regeneration and control illegal harvesting.*

#### **Industry Structure**

Most stakeholders who provided suggestions and or comments on FPC’s present industry structure stated that they prefer this structure but only if suggested modifications were made.

The current industry structure can be split into the functions of harvesting, processing, and marketing/sales. The main consensus according to industry function is as follows:

#### **Harvesting**

The primary concern of those stakeholders who commented on the harvesting of wild WA sandalwood was for an increase in the involvement of pastoralists and Aboriginal communities in this function of the industry.

#### **Processing**

Stakeholders’ comments on the processing of wild WA sandalwood were aggregated by category of processing. Processing can be split into sorting/grading of wood; raw wood processing (pre-grind and powder manufacturing); and oil distillation. However, it is worth noting that the majority of stakeholders who commented on the processing of wild WA sandalwood commented only on oil distillation.

#### **Sorting /Grading of Wood and Raw Wood Processing**

Very few stakeholders provided suggestions and/or comments on the sorting/grading of wild WA sandalwood. Most stakeholders providing comment requested a reduction in the quantity of green wood being processed by the FPC into pre-grind and powder (with some suggesting its discontinuation altogether). Customers expressed a strong preference to purchase solid wood from the FPC. However, processing by the FPC of deadwood into pre-grind and powder was considered acceptable by some stakeholders.

#### **Oil Distillation**

The majority of stakeholders view the current oil distillation arrangement as monopolistic. It was suggested that a more level playing field should be developed by increasing the number of oil producers purchasing wild WA sandalwood.

#### **Marketing/Sales**

Most of those stakeholders who commented on the marketing and sales of wild WA sandalwood products had a view that the FPC’s marketing and sales function should be separated from its processing functions (prior to supply for agarbatti and oil production). The combined functions were considered to be a conflict of interest. However, this was not the opinion of one stakeholder with experience in both aspects of the industry, who believed all functions can be combined. An experienced oil producer proposed an auction system for export wood that could be used to set the price for the supply under long term contracts of oil bearing high grade green wood.

**Enable Regeneration**

*Funds generated from wild sandalwood sales should be used to develop strategies that improve the success of wild WA sandalwood regeneration and promote the sustainability of the species in its natural environment.*

A large number of stakeholders provided suggestions and or comments on the regeneration and conservation of wild WA sandalwood. Many of these stakeholders suggested increasing pastoralists and Aboriginal communities' involvement in the re-establishment of wild WA sandalwood.

**Enable Law Enforcement**

*Funds generated from wild WA sandalwood sales should be used to develop strategies to provide for ongoing control of illegal harvesting and sale of wild WA sandalwood.*

A large number of stakeholders provided suggestions and or comments on illegal activities associated with the harvest and sale of wild WA sandalwood, with the majority suggesting that the penalties imposed on those responsible be increased substantially so as to act as a real deterrent to those involved.

**4.2 ENSURE ADEQUATE VISIBILITY TO THE FPC OF THE SUPPLY CHAIN**

*Government's objective is to have visibility of all parts of the supply chain. This may be achieved through a number of structures, including agency arrangements or direct sales to end users.*

Very few stakeholders provided suggestions and/or comments on the visibility of the supply chain. No overwhelming theme emerged from the suggestions and or comments that were made.

**4.3 DOMESTIC PROCESSING**

*Government's objective is to maintain and develop an industry structure that adds value to the product through domestic processing within WA.*

All stakeholders who provided suggestions and/or comments on domestic processing requested that wild WA sandalwood be processed domestically in a facility situated in WA, thus creating opportunities and generating benefits for local communities. Domestic processing can be split into raw wood processing and oil distillation. Stakeholder comments on each of these processes are provided below:

**Raw wood processing:**

As stated under 4.1 above, the primary suggestion of those stakeholders who commented on the raw wood processing of wild WA sandalwood is to increase the sale of raw wood by reducing the quantity of greenwood being processed by the FPC into pre-grind and powder. However, processing of deadwood by the FPC into pre-grind and powder was considered acceptable by some stakeholders.

**Oil processing:**

As stated under 4.1 above, the majority of stakeholders providing comment on oil distillation viewed the current contractual arrangement as monopolistic. It was suggested that a more level playing field should be developed by splitting the available oil bearing high grade green wood into smaller parcels for tender, thus allowing more than one WA based oil producer to participate in the wild WA sandalwood industry. Some stakeholders suggested eliminating any conflicts of interest by awarding future contracts to oil producers who are not involved in any other sandalwood species.

#### 4.4 BENEFITS TO REGIONAL AND ABORIGINAL COMMUNITIES

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*Government will favour an industry structure that enables and sustains regional production and employment opportunities, and creates bona-fide training and employment benefits for Aboriginal communities.*

A large number of stakeholders supported an increase in the involvement of regional and Aboriginal communities' in the regeneration and conservation, and harvesting functions of the industry. There was a strong view that these activities can provide employment opportunities to regional and Aboriginal communities.

#### 4.5 BRANDING AND VALUE DIFFERENTIATION OF WILD AUSTRALIAN SANDALWOOD

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*Governments' objective is to market and sell wild WA sandalwood in such a way as to differentiate it from plantation grown products in terms of value. However, strategies adopted must be complementary to the future development of markets for plantation grown WA sandalwood.*

Very few stakeholders provided suggestions and/or comments specifically on the branding and value differentiation of wild WA sandalwood. However, many stakeholders provided suggestions and/or comments on the related issues of market stability and transitioning to plantation wood.

##### **Market stability**

Around a third of the stakeholders provided suggestions and/or comments on the importance of maintaining market stability and continuity of supply in the sales of wild WA sandalwood. Stantons aggregated these suggestions and comments by market type as follows:

##### *Incense market/Agarbatti market*

Stakeholders who commented specifically on the incense market requested stable prices, continuity of supply, and stable quality of wild WA sandalwood products.

##### *Oil market*

Stakeholders who commented specifically on the oil market viewed the current contract for the sale of oil producing wood to be monopolistic and anti-competitive. Effectively the current contract holder controls the supply and price of wild WA sandalwood oil to the marketplace. Flow on effects from such an arrangement may negatively impact the demand for wild WA sandalwood oil.

##### **Transition to plantations**

A number of stakeholders provided suggestions and/or comments on the transition to plantation WA sandalwood markets. Comments highlighted the importance of not undermining the perceived value of plantation WA sandalwood as it is the plantation grown WA sandalwood that will assist with the sustainability of the WA sandalwood species into the future. The sandalwood industry needs to be encouraged irrespective of the fact it is wild or plantation grown WA sandalwood. A number of stakeholders also stated that the Government needs to regulate the plantation WA sandalwood industry so as to ensure that wild WA sandalwood will not be harvested/processed illegally and hidden amongst plantation wood.

#### 4.6 OTHER

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##### **Ownership and Access rights**

A number of stakeholders commented on the issue of ownership and access rights of wild WA sandalwood, which need to be addressed by FPC regardless of what commercial arrangements are put in place.

## **5.0 CONCLUSION**

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The comprehensive consultation process provided stakeholders an opportunity to submit written submissions on the future structure and commercial arrangements of the wild WA sandalwood industry. Stakeholders were requested to provide feedback against Government approved criteria outlined in an “Invitation for Comment” document. The consultation process was ongoing over the period of July and August 2015. Stantons notified, coordinated and received submissions from those stakeholders who were willing to participate in the consultation process.

Community consultation meetings were also held in Kalgoorlie and Merredin, providing stakeholders with an opportunity to have a one on one discussion about the consultation process with a Stantons representative. A detailed presentation was also given at these meetings to communicate further the background, intent and outcome of the process.

A total of 48 submissions were received by Stantons. Stantons reviewed all of the submissions, and collated and summarised suggestions made against the criteria.

Overall, Stantons noted that there is a variety of viewpoints from interested stakeholders, with many stakeholders providing comments and/or suggestions on topics outside of the given criteria. Most stakeholders who provided suggestions and or comments on FPC’s present industry structure stated that they prefer this structure but only if suggested modifications were made. This included separating the currently combined wood processing and marketing functions as well as an emphasis on local domestic processing, especially for oil production which should not be monopolistic.

All comments and/or suggestions made have been captured by Stantons, and are presented in further detail in the confidential report provided to the FPC.