

**SUBMISSION TO THE PARLIAMENTARY COMMONWEALTH COMMITTEE REGARDING
WOOD SUPPLY FROM AUSTRALIA’S PLANTATION SECTOR**

FROM PLANTATION TREATED TIMBER PTY LTD – KALANGADOO, SOUTH AUSTRALIA

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Executive summary

There is considerable community and timber industry concern in the Limestone Coast Region of South Australia and the South West of Victoria (known within the industry as the Green Triangle or GT) due to the export of softwood logs and the impact this has had on domestic timber processors and associated employment and other community benefits. Plantation Treated Timber (PTT) makes this submission due to the concerns it has both for the viability of its own business and also the broader community which the company is a part of.

The community and industry are concerned by the actions of all of the major plantation owners as they are all involved in export operations. These concerns were triggered by the Forward Sale of the South Australian Government ForestrySA estate to OFO Plantations Pty Ltd in 2012 and the almost immediate increase in log exports that followed in 2013. OFO Plantations is 50% owned by Australia's Future Fund.

OFO Plantations has been used as an example of issues in the industry as this formed part of this Company's submission to the Select Committee of Legislative Council of South Australia relating to Timber Supply Matters in 2019.

The tonnage of softwood logs exported from all plantation owners, both sawlog and smaller diameter log increased markedly in 2013 and has remained at high levels to 2018. The tonnage reduced in 2019 but still remains at historically high levels. The level of exports in 2013 to 2018 averaged 1.7M tonnes annually or just under 50% of the total available long-term softwood log supply.

Plantation owner OFO with half of the total softwood plantation estate are bound by the terms of their lease with former owners, the South Australian Government. PTT submits that OFO's lease obligations are not being met in that:

- There appears to be no planned domestic supply.
- Domestic processors have been disadvantaged in tendering for softwood log against OFO's export operations.
- Their tendering processes have not been carried out at the required arms-length commercial terms.
- The efforts of domestic processors to secure additional log supplies have not been rewarded, particularly smaller processor such as PTT.

It is noted that the other plantation companies are not bound by any requirement to supply domestic processors. The efforts of domestic processors to secure additional long-term supply from this group have also been largely unsuccessful.

While most plantation owners have expressed a desire to sell logs on a basis of export parity there is a lack of transparency as to what this actually means. Attempts by a number of domestic processors to get answers on this from the plantation owners have not been successful.

As part of the need to increase domestic supply, concerns are also raised regarding the superannuation ownership structure of the plantations and the role that maintaining asset valuations has plays in this.

The submission also touches on the need for a Code of Practice to bind plantation owners and domestic processors. This Code would, amongst other things provide a fair and transparent process to make additional and ongoing supply available to domestic processors on fair and reasonable commercial terms.

This submission also provides information regarding the present & future supply of softwood logs and draws attention to the fact that expansion of the softwood plantation estate has stopped.

The submission is intended to raise these concerns at a Federal level as the issues transcend Regional and State Boundaries.

**This submission provided by Plantation Treated Timber Pty Ltd is intended to address the
Terms of Reference of the Committee**

1. PLANTATION TREATED TIMBER PTY LTD AND THEIR ISSUES

Plantation Treated Timber Pty Ltd (PTT) is a timber processing company based at Kalangadoo in the south east of South Australia. The company produces treated softwood timbers principally for primary producers across south east Australia.

The Kalangadoo site was initially developed as a treatment plant by Kalangadoo Timbers in 1947 and then purchased by Softwood Holdings followed by South East Afforestation Services and Auspine in 1993. It became the largest treatment plant for Copper Chrome Arsenic (CCA) and Creosote treatment in Australia. The present 5 ha site was equipped with pre-drying, processing and finishing equipment and operated successfully for over 50 years.

Auspine was taken over by timber company Gunns in 2008 and the Kalangadoo site effectively ceased major operations shortly after. Wepar Investments purchased the site in 2011 but went into receivership in 2012 and the site was closed resulting in the loss of 21 jobs. The site was then taken over by PTT, which is owned by the Badenoch family in 2013 and has operated successfully since then employing local personnel.

There was a significant impact on the town of Kalangadoo in the two-year period when the mill site was not operating. At this time the Kalangadoo Hotel and food outlet The Shop were at risk of closing. Since the commencement of PTT with its associated employment both the Kalangadoo Hotel and The Shop have continued to trade successfully. PTT is also a significant contributor to local community groups providing both support and sponsorship.

1.1 The current business and associated employment

Since the commencement of operations in 2013, PTT has invested steadily in the site to bring it up to modern operating standards. This has entailed significant capital expenditure of \$3M enabling an increase both in log intake and in the range of products sold. Further capital expenditure is planned.

PTT now employs 20 staff. Processing of treated timbers is labour intensive such that increased supply of log would have a further positive impact on employment and the community benefits that flow from this.

Since re-opening the Kalangadoo Mill, significant milestones achieved are:

- | | |
|------|---|
| 2014 | Establishment of rural retail yard |
| 2014 | Refurbishment of CCA treatment facility |

2015	Installation of Cambio Log yard debarking system and construction of treatment plant pad roofing. Refurbished creosote treatment & bark loading facilities
2016	Installation of Morbark peeler and post-pointing machinery
2017	Installation of faced post, fence dropper machines and light oil treatment cylinder
2018	Construction of large storage shed
2019	Installation of Holtec docking and Autopack de-stacker machinery

1.2 Current log intake and issues arising

The current log and timber intake are 19,000 tonnes per year of small roundwood log suitable for treatment and use as posts, poles and strainers for fencing as well as some sawn timber that is treated for rural uses.

	Financial year (tonnes)						
	2014	2015	2016	2017	2017	2018	2020
Log intake	2,175	5,202	13,969	8,513	14,477	16,009	18,000
Sawn timber intake	15	199	589	581	1,096	831	1,100

PTT has a number of specific concerns regarding supply of log to their business as follows:

- The company principally uses smaller diameter log between 8cm and 20cm diameter for log treatment in round form. Only a small proportion of the logs sought are greater than 20cm and hence covered by Clause 13 of the Plantation Lease Agreement which is detailed later in this submission.
- For the last 3 to 4 years, PTT has been unsuccessful in negotiating medium- and longer-term supply with any of the major plantation owners including OFO. While PTT currently has a number of supply contracts, they will all expire by 2024. On a positive note, PTT has been successful in securing logs from small private plantation growers including 5,000 t of logs in the 2020 year. However, this resource well very finite due to a lack of new plantings and will not be available within 3 years.
- A considerable proportion of the logs currently sold to export by OneFortyOne Plantations (OFO) and other plantation owners is made up of smaller diameter log

suitable for PTT and this is the primary concern for PTT and forms the basis for much of this submission.

- PTT wish to increase their log intake and have indicated a willingness to pay export parity prices in negotiations with a number of plantation owners over the last 4-5 years. It has been difficult for PTT to ascertain what export parity pricing actually is due to a lack of transparency in export pricing mechanisms from plantation owners.
- As a timber processor PTT continues to be concerned about ongoing surety of supply. The lack of longer-term supply contracts means that PTT faces an uncertain future and this is a significant barrier to further investment. Further investment would improve efficiency and also provide further employment and additional community benefits.
- PTT wishes to increase its roundwood log intake from the current 19,000 tonnes per year to at least 25,000 tonnes per year in 2020 and 2021. This is elaborated on in Section 3 of this submission.
- PTT currently has orders pending that are older than 12 months. A considerable amount of orders has been knocked back over the preceding 3 years because of PTT's inability to access log to process. These issues were exacerbated on the back of the 2020 summer bush fires. PTT would have been in a better position to support burnt out farms had PTT had access to more log in the preceding 3 years.

The forward sale of the ForestrySA Green Triangle estate caused considerable community concern, both prior to and following its sale in 2012 to OFO. These concerns were expressed prior to, and during the sale process. The principal concerns centred around whether enough log products would be available for the present domestic processors and whether there was sufficient resource to allow for expansion by these present processors, and for new domestic processors to enter the market.

PTT understands from its industry networks that its concerns are shared by a number of other processors in the Green Triangle.

In short, the concerns expressed in 2012 by many in the local community and a number of domestic processors including PTT have now been realized.

2. OVERALL SOFTWOOD SUPPLY IN THE GREEN TRIANGLE AND ISSUES ARISING

This submission is limited to the issue of softwood log supply in the Green Triangle covering the Limestone Coast Region of South Australia and South Western Victoria

From the Terms of Reference:

The plantation wood supply available for domestic softwood processors including:

- a. Current and future demand for logs for domestic processors; and**
- b. Any shortfall in current processing industry demand for logs.**

2.1 The softwood plantation estate

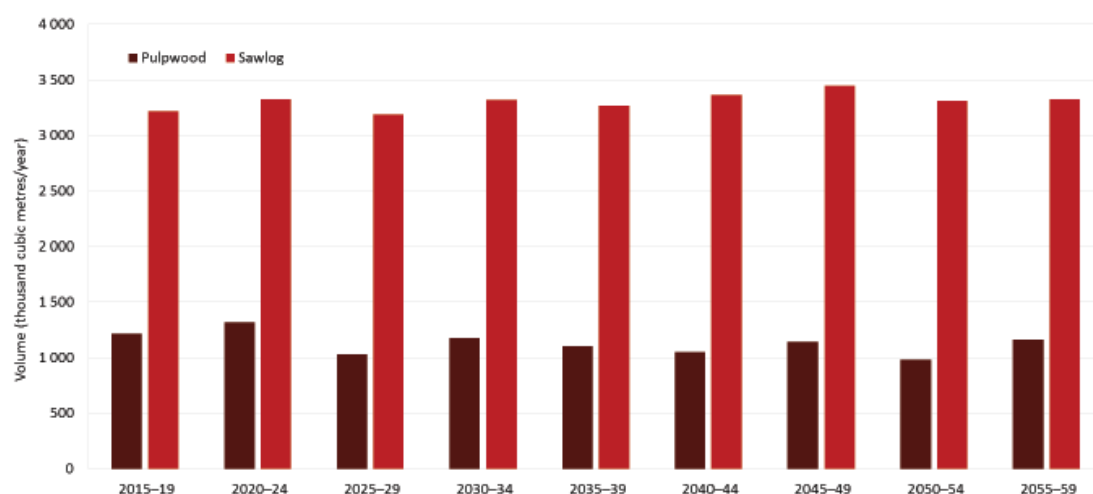
The table below provides the current estimated softwood plantation estate by owner in the Green Triangle.

Plantation Owner	Softwood plantations (approx. ha)
OFO	84,000
Green Triangle Forest Products (GTFP)	23,000
New Forests	41,000
Hancock Victorian Plantations (HVP)	21,000
Other plantation owners	6,000
Total softwood plantation estate	175,000

Source: Total area of softwood plantations reported in: Downham, R & Gavran, M 2019, *Australian plantation statistics 2019 update*, ABARES technical report 19.2, Canberra. Plantation ownership statistics are not published but were estimated from industry sources.

Using softwood plantation growth rates of 21 cubic metres of log per hectare annually for the Green Triangle¹, the total long-term sustainable yield of all plantation softwood log is shown in the figure below. This volume translates to an estimated at 3.5 million tonnes annually of softwood plantation log.

Figure 19 Forecast softwood plantation log availability, Green Triangle



Source: ABARES 2016, *Australia's plantation log supply 2015-2059*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra.

Alarming for PTT, the long-term (40 year) supply of softwood plantation log from the Green Triangle is forecast to be static. This situation has arisen because investment in new softwood

¹ ABARES 2016, *Australia's plantation log supply 2015-2059*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, Appendix A: Regional yield tables.
Submission to the Commonwealth Parliamentary Committee regarding Wood Supply from Australia's Plantation Sector

plantations has stalled and in fact the total area of commercial plantations in Australia has decreased in recent years.² There are no market signals that this situation will be reversed in the short to medium term.

The significance of the former ForestrySA estate (now managed by OFO) of 84,000 ha of softwood plantations is that it represents just under half of the total softwood plantation estate of 175,000 ha. While all of this plantation estate is now in private ownership, the sale of the ForestrySA plantations was the major concern as it provides 50% of the total available log supply. Whilst under Government ownership there was a clear charter for domestic industry development as opposed to export of unprocessed log.

2.2 Export of softwood logs

To varying degrees all softwood plantation owners are involved in servicing the export market centred on the Port of Portland in western Victoria. Advice to hand from industry sources is that 8.5 million tonnes of softwood log products were exported from Portland in the 5-year period from 2013. In its simplest form, the average annual log exports during this period were 1.7 million tonnes, just less than 50% of the total sustainable annual harvest. While the tonnes of log exported has decreased in the last 12 months it still remains at historically high levels.

This level of whole log export has not happened before in the Green Triangle. Industry advice is that log exports had never exceeded 300,000 tonnes annually (and then only in one year) before 2013.

The full range of log products are exported – from the smallest diameter log that would be used by processors like PTT to the larger diameter high quality sawlog.

As part of this, OFO's log export is understood to have been as high as 700,000 tonnes during this 5-year period.

This level of export cannot be sustained impacting on both present and future log availability.

A number of plantation owners are recorded as saying that high export levels have been essential in achieving the required level of plantation thinning. Plantation thinning in the main, produces smaller diameter logs so that the larger trees can be allowed to grow on to sawlog size. If plantation owners are genuine in their desire to thin the plantations why not sell smaller diameter logs to a company such as PTT. *It is plantation thinning that is essential, not that the product is exported.*

² Downham, R & Gavran, M 2019, Australian plantation statistics 2019 update, ABARES technical report 19.2, Canberra.

2.3 Issues in achieving on-going and/or additional domestic log supply – the OFO example

Ongoing Supply Agreements between growers and processors are an essential part of the industry. These Supply Agreements can be for varying terms. They need to reflect capital costs of equipment and the need to provide for long term, skilled and stable staff.

A number of processors are frustrated in their inability to negotiate in a meaningful way with several plantation owners in the Green Triangle. This has been a major problem from 2013 to the present time due to high export logs prices particularly from 2013 to 2018. Plantation owners continued to supply domestic processors with existing Supply Agreements during this period but in the main took the view that any additional logs could simply be exported. This was despite the fact that a number of domestic processors were willing to purchase these logs at an export parity price.

The Plantation Lease Agreement (17 October 2012) between the Government of South Australia and OFO covered the terms and undertakings that will apply to the former ForestrySA plantation estate following its effective sale to the new owner. The tendering examples provided should be viewed not so much as being overly critical of OFO but really as a systemic problem within the broader industry, both in the Green Triangle and in other parts of Australia. The tendering examples from OFO are also relevant in that the South Australian Government has the mechanisms within the Plantation Lease Agreement to influence outcomes and additional Supply Agreements for domestic processors.

As to the issue of log export versus continued and expanded sale of log products to domestic processors, Clause 13 of the Plantation Lease Agreement is the most relevant:

Clause 13 of the Plantation Lease Agreement

13 Sawlog Sales

13.1 Competitive Process

Subject to clauses 13.2 and 13.3, the Lessee agrees that it will offer uncontracted Sawlog in excess of planned viable domestic supply requirements for sale pursuant to a competitive open market tender process that incorporates domestic millers and exporters, conducted on normal arms-length commercial terms which do not disadvantage domestic customers. Invitations to participate in a competitive open market process must be communicated at least by direct written notification from the Lessee to domestic millers and exporters known to the Lessee to use or be seeking the relevant sawlog.

13.2 Export Contracts

In the event that the Lessee complies with clause 13.1 and enters into a contract to export Sawlog, the Lessee agrees that, if:

- (a) the contract has a fixed term, such fixed terms (including any extensions) will be not greater than 2 years (to the extent permitted under Australia's international trade obligations); or*
- (b) a series of contracts with a party (or its Associates) have fixed terms, such fixed terms in aggregate will be not greater than 2 years from the commencement of the first contract (to the extent permitted under Australia's international trade obligations).*

13.3 Domestic Sales Contracts

The requirement for a competitive open market tender process under clause 13.1 will not apply to log sales to domestic customers. Clause 13.1 will not prohibit the Lessee from extending or altering terms in any contract with domestic customers or negotiating new supply contracts with domestic customers.

Clause 13 refers to sawlog sales, which means *log greater than 20cm diameter*. However, the tender processes referred to in Clause 13.1 have been used to sell a range of log products often including smaller diameter log which is keenly sought by customers such as PTT.

The Forward Sale placed obligations on OFO that excess log is tendered in an open market process to domestic customers and exporters in a manner that does not disadvantage domestic customers. PTT is strongly of the opinion that the actions of OFO are not in the spirit of conditions developed during the Forward Sale process. In short, many believe that OFO's lease obligations are not being met in this regard.

2.4 Tendering process used by OFO

In practice, the tendering process that has been used by OFO is viewed by PTT as less than satisfactory in achieving planned viable domestic supply. Some examples of tendering information provided by industry sources are as follows:

RFT 2013/1

A parcel of logs comprising 102,000 tonnes was tendered on 28/3/2013. Tenders closed on 15/4/2013. Award date was 22/4/2013 and commencement date was 13/5/2013. A successful domestic bidder would:

- Be allowed nine business days to formulate a bid, which is a very short period of time.
- Had to take 80,500 tonnes of log in a three-month period. This is equivalent to 322,000 tonnes of log in a 12-month period. No domestic customer in the Green Triangle has this capability.
- Be required to take all of the log diameters on offer to make a fully compliant bid. This was impractical for any existing domestic customers to comply with due to the

specialization of their mills – different mills take different types of log to suit the products that they manufacture.

- Also be required to meet payment terms of five days from the end of the month and with significant security requirements. These payment terms are viewed as harsh given that normal payment timings from an equivalent export operation would be 15-30 days or to a domestic processor who would normally have terms of 30 days for payment from the end of the month of supply.
- This tender was awarded internally to OFO's export operation.

RFT 15/1

A parcel of logs comprising 196,000 tonnes was tendered on 22/08/2014. Tenders closed on 2/9/2014. The tender was for 136,000 tonnes of sawlog and 60,000 tonnes of pulp log. A successful domestic bidder would be required to take this tonnage of log in a three-month period under similar conditions to those outlined in RFT 2013/1 above. Again, no domestic customer can process this tonnage of logs within this time frame. The tender process was awarded internally and was framed to favour OFO's own export business at the expense of domestic processors.

There are other examples of tendering in 2015 and 2017 that can be provided if required.

The tender process that has been conducted by OFO has not been in the spirit or intent of the Plantation Lease Agreement 13.1 with key terms highlighted:

*the Lessee agrees that it will offer uncontracted Sawlog **in excess of planned viable domestic supply requirements** for sale pursuant to a competitive open market tender process that incorporates domestic millers and exporters, conducted on **normal arms-length commercial terms which do not disadvantage domestic customers**. Invitations to participate in a competitive open market process must be communicated at least by direct written notification from the Lessee to domestic millers and exporters known to the Lessee to use or be seeking the relevant sawlog.*

PTT has the following issues with the OFO tendering process:

1. The clause '**planned viable domestic supply requirements**' has never been defined or, if it has the industry is unaware of it. The process lacks any surety as to ongoing log supply that would justify necessary investment. Planned viable domestic supply should allow for further development of established processors and also new processor entry from time to time. The plantation owners and domestic processors are operating long-term businesses with substantial capital investment. Domestic supply should also be considered in the same time frame.
2. All domestic processors but particularly the smaller intake processors are disadvantaged by short-term tendered sales (3, 6 or 12 months) which are viewed as a series of rolling spot sales. The initial response time to the tender is unrealistic in

the commercial sector. And the relatively short period during which the high tonnage of tendered logs must be taken is beyond the intake capacity of domestic customers in the Green Triangle.

3. The tender process is not being conducted on normal arms-length commercial terms and as a result disadvantages domestic processing. To highlight this, OFO export logs directly to overseas markets and the same staff who oversee this operation also conduct the log tendering operation that domestic processors are invited to compete for.
4. The terms of tender have been restrictive and onerous to the point that domestic customers find it well-nigh impossible to comply with them. The attitude of OFO appears to be biased towards providing log to export rather than domestic supply.
5. There is a lack of information as to how log exports operate including transparent data on export tonnages and prices to compare to domestic supply options. This information is essential if domestic processors are to consider purchasing log based on export parity pricing.
6. OFO and other plantation owners appear to be targeting export parity pricing via short-term contracts instead of longer-term sale arrangements and indexed pricing which has traditionally been used in the industry to justify capital expenditure by domestic processors.
7. That supply agreements that plan for domestic supply can be achieved without the short term rolling tender process that disadvantages domestic processors who cannot use large tonnage short term parcels of log products.

The overall impression from the domestic industry is that the tender process conducted by OFO is not in keeping with the spirit of the Plantation Lease Agreement and it is being used to justify continued high levels of log exports by OFO at the expense of domestic processing opportunities.

2.5 New Forests Supply Negotiations

PTT has also had similar experiences with New Forests and their Agent Timberlands Pacific (referred to below as New Forests Agent), who are contracted to perform this role. PTT commenced discussions with New Forest's Agent in 2017 to purchase additional supplies of small roundwood logs for preservation treatment. Issues arising from this;

- PTT was willing to pay above export parity for supply but New Forests Agent were unable to provide any information as to what the export parity benchmark was.
- Export parity or wharf gate pricing takes into account conversion from tonnes to cubic metres, transport differences, export risk and harvest costs differences. Export CIF

prices to Asian markets are widely known and talked about within the industry so it is puzzling as to why export parity prices could not be disclosed.

- PTT sought 5-year or longer supply terms for relatively modest supply of 15,000 tonnes p.a. and reasonable contract terms that included take or pay provisions which are to the benefit of New Forests. PTT was advised that only 4-6,000 tonnes would be available annually. New Forests Agent were not willing to consider terms over 2 years.
- Discussions between PTT & New Forests Agent that continued for over 2 years finally resulted in a term commitment for a term sheet for an unspecified tonnage. At one point a short term 1-month supply was offered by New Forests Agent and this was accepted by PTT to assist New Forests. Following this New Forests Agent backed away from the previously offered Term Sheet and went to tender. With this tender New Forests Agent provided a draft Supply Agreement. This included a take or pay or pay provision but didn't include a guaranteed log supply which is unheard of in the industry.
- Further to this the price adjustment mechanism proposed by New Forests Agent was intriguing. New Forests Agent wished to base 80% of periodic price adjustments on fuel price changes. whereas the norm in the plantation industry is 20% being the approximate cost of fuel used compared to other costs such as labour and capital. This unusual approach was at what New Forests Agent perceived was the bottom of the fuel price cycle. The formula proposed is viewed by PTT as dishonest.
- The tender also offered a 3-year term while PTT sought a 10-year term. PTT's request for a 10-year term was largely based on public statements by the CEO of New Forests, Mark Rogers that supported this approach.

PTT is of the mindset that the unsuccessful negotiations with New Forests were not conducted in a good faith, consultative and transparent way. Simply put, New Forests and their Agent Timberlands Pacific were not engaged in the process.

3. THE BENEFITS FROM INCREASED DOMESTIC SUPPLY

3.1 From a PTT perspective

The submission by the South Australian Timber Processors Association will be more far-reaching and deal with economic benefits including employment across the industry and the region from additional supply of log for domestic processing.

With respect to PTT the company submits the following:

- The company wishes to increase its annual softwood log intake from the current 18,000 to at least 25,000 tonnes in 2020 and 2021 with further opportunities to process 35,000 tonnes p.a. If PTT was able to secure its desired of 35,000 t p.a. it

would open up a range of value adding opportunities with subsequent employment benefits.

- Three-year terms are not enough to justify capital expenditure. PTT seeks a medium (7 to 10-year) or longer term contracted supply.
- PTT is willing to purchase log at export parity pricing if this is clearly defined but, in any event, will pay a full market price for any logs purchased. As at July 2020 any offer from PTT would be well above what it understands the export parity price to be.
- If PTT could secure additional supply of log, on longer term contracts, PTT could be in a position to invest a further \$3 million in capital expenditure.

PTT would also like to draw attention to the situation of the Chinese company Shield Resources. The company submitted development applications with Wattle Range Council four years ago and commenced negotiations with hardwood and softwood plantation owners for the manufacture of industrial plywood to be used in construction. Shield Resources intended to use part of the PTT site at Kalangadoo which provided benefits for both parties.

Shield Resources was not able to secure supply from plantation owners in the Green Triangle. The company then put forward proposals to invest in excess of \$50M to build a softwood sawmill that would have used smaller diameter logs. The company was again not successful in reaching any log supply agreement with the softwood plantation owners. Shield Resources now operate a log export yard at Keith in South Australia shipping whole logs to China due to their failure to obtain a log supply agreement for domestic processing.

This example further supports the view of PTT that log exports from Portland are jeopardising investment in domestic processing in the Green Triangle and the flow-on socio-economic benefits.

3.2 From the perspective of Green Triangle processors

PTT submits that the availability of softwood logs to processors could be increased by providing them with fair and reasonable opportunities to purchase logs currently being exported. It would also be assisted by all plantation owners increasing the harvesting recovery of small diameter logs, many of which are currently left on the forest floor.

Specific issues in relation to these two points are:

- Tender processes conducted should be carried out in a genuinely arms-length way with realistic time lines and fair terms and conditions which do not disadvantage domestic processors.
- Achieving transparent pricing is the key to increasing domestic log supply. There are a limited number of suppliers (the plantation owners) and purchasers (the domestic processors). The concept of export parity pricing needs to be explained

to domestic processors. Issues involved include the cartage distance differential from plantations to either Mt Gambier or the Port of Portland in Victoria and then cost/risk factors in product conversions from volumetric sale units (cubic metres) to tonnes, exchange rates, wharf logistic costs and margins for risk that apply to export operations. This information is well known in the export market but is almost regarded as secret by the plantation owners in the Green Triangle which disadvantages the completeness of domestic processors.

- There is concern that the current harvesting operations are, on occasions wasteful with logs, particularly small diameter logs being left in the plantation after harvesting. In a number of harvesting operations, logs less than 12cm in diameter have been left in the plantation because the larger logs have been taken to export or to domestic processors. The picture below of a recent harvesting operation in the Green Triangle shows logs largely between 8cm and 14cm diameter left behind or wasted. The logs left behind in this operation is common across harvest types and would be suitable for a company such as PTT to produce treated posts and other products.



Photo supplied by industry sources.

- Domestic processors who utilize small diameter logs and who seek additional supply question why they cannot purchase these logs, which are being wasted? A number of companies such as PTT who treat logs are all seeking additional supply of preservation logs, which have been supplied for many years from the OFO estate.
- Several plantation owners have also said that they don't want to continue harvesting short length logs (1.8m, 2.4m, 3.0m lengths) on the grounds that the

practice is unsafe. These short length logs are the preferred products for the industry and have been produced for many years. PTT has sought clarification as to what these safety issues are but have received no response. Achieving full product recovery from harvesting operations is a relatively straightforward way of increasing the availability of logs.

4. SOME SUGGESTED REGULATORY & OTHER CHANGES

4.1 Adopting a Code of Practice

The industry as a whole should consider adopting a Forest Industry Code of Practice (COP) covering the export of logs *per se* and how domestic processing can be encouraged and planned for, and the terms that would apply.

The South Australian Timber Processors Association has now prepared a paper outlining what would comprise this COP and are providing this in their separate submission to the Committee.

A COP would apply to both plantation owners and domestic processors. It is recommended that any COP adopted should be mandatory so that it is regulated and enforced by the Australian Competition and Consumer Commission (ACCC). A Code of Practice would provide transparency to export operations so they can be reasonably compared to domestic supply options. It would also provide obligations so that;

- Comparative pricing between domestic supply and export is transparent and clearly understood by all parties.
- Negotiations would be both timely, transparent and conducted in good faith.

4.2 Information on future industry supply, pricing and sales

Publication of information relating to future industry supply would assist greatly in the planning decisions made by domestic processors relating both to investment and further expansion opportunities. This would include access to forest modelling of the various log products to assist domestic processors without jeopardising the commercial property of the individual plantation owners. When the majority of the plantation estate in the Australian states was in Public ownership this information was reasonably provided and updated periodically.

Any information on this subject is now closely guarded by many of the private owners.

Information on softwood log pricing and tonnages supplied is available from a number of industry sources. One of these is KPMG's Australian Log Price Index which is supported by a number of the large plantation owners. This Index provides stumpage price and tonnage

produced information across a number of product classes. One of the product classes is Preservation (treated) timbers which is of most interest to PTT.

The KPMG index³, shows that 114,123 tonnes of preservation logs were processed domestically in the period July to December 2012 at a maximum stumpage of \$25.77/t. Maximum stumpage is used as this best reflects stumpage prices for this product in the Green Triangle. Domestic processing then decreased to reach a low point of 50,451 tonnes in July to December 2015 while maximum stumpage increased from \$25.77/t to \$43.19/t. This coincided with a period of high export log prices and tonnage. Interestingly the Index provides stumpage information on domestic log prices but not for any logs that are exported.

The last information available to PTT for 2018 shows that 56,246 tonnes of preservation logs were consumed domestically in the period July to December 2018 while maximum stumpage again increased from \$43.19/t to \$51.61/t. In the period 2012 to 2018⁴ the maximum stumpage increased from \$25.77/t to \$51.61/t or a 100% increase. While maximum stumpage prices increased markedly the available domestic log supply didn't improve significantly.

The overall impression from domestic preservation processors is that the major plantation owners believe that is much simpler to export large volumes of small diameter logs to export markets, rather than deal with the needs of relatively small domestic processors. There are now significant shortages of preservation treated timbers in the Australian market and this has increased in the last 18 months following catastrophic fires in Tasmania, NSW and Victoria.

4.3 Comparison between Australia & New Zealand softwood log markets

Historically New Zealand has had a much greater dependence on export softwood log markets than Australia due to its smaller domestic market. Across the Australian market approximately 20% of softwood plantation log products are exported whereas in New Zealand is it closer to 80%. As a result, New Zealand domestic processors have had to live with wild fluctuations in domestic log prices and the instability this causes. In comparison, Australian domestic log prices and the tonnage supplied has been relatively stable.

Over the last 7 years the Green Triangle has had export levels approaching 50% of total supply due to its close proximity to the export port in Portland Victoria. While export tonnages have declined somewhat compared to the previous highs domestic processors are puzzled as to why there is not further log supply available. Domestic processors are of a view that plantation owners are simply waiting for high export prices to return.

³ *Australian Pine Log Index log supply (stumpage updated to June 2017)*

⁴ *Australian Pine Log Index log supply (stumpage updated to December 2018).*

They have formed this view in part based on the ownership structure of plantation owners. The bulk of the plantation estate is now owned by Superannuation Funds as part of their infrastructure assets portfolios. Management is provided by service providers known as Timber Investment Management Organization (TIMO). Maintenance of higher than market log pricing is essential to the Superannuation Funds asset value and also the fee structures used by the respective TIMO's. There is a view that this, and the limited number of major plantation owners in any one regional area are the principal reasons for the problems faced by domestic processors.

Another related issue is that the major fires in NSW in early 2020 resulted in the loss of significant softwood plantations in that State. This is expected to lead to serious shortage of plantation log in NSW when fire salvaged logs are exhausted. A number of major domestic processors in southern NSW are likely to seek Government assistance so that they can source softwood plantation logs from distant locations such as the GT. This would decrease the availability of softwood log to domestic processors in the Green Triangle. If Government subsidies are being considered to assist NSW domestic processors then why not apply this level of subsidy to assist the importing of softwood logs from New Zealand to NSW rather than create a shortage of softwood logs in another part of Australia.

PTT wishes to only touch briefly on issues 5 and 6

5. ADDRESSING WATER LICENSING ISSUES IN SOUTH AUSTRALIA

The timber industry as a whole, and in particular plantation owners, who are long term investors are concerned about water licensing issues reducing the area of their plantation estate over time. The plantation owners have sought to highlight this issue with Government, processors and the community by pointing out the impact on the industry in the medium and long term.

As part of this, domestic timber processors are also concerned about the impact of water licensing issues and fully understand the complexity of the issue. The full range of agricultural (and forestry) industries depend on access to water.

PTT believes that Government, timber processor and community support at all levels can probably best be achieved by planning for further domestic supply. Without this the timber industry will not garner the necessary community support to achieve positive change in water licensing issues. At its simplest, if the timber industry doesn't have a strong social licence then it won't get a successful result.

6. ACTIVE SUPPORT FOR A PLANTATION EXPANSION PROGRAM

Expansion of the softwood plantation estate (greenfield) has stopped and evidence would point to some retraction of the overall estate, as mentioned earlier in this submission.

Greenfield or new softwood plantation development or expansion has not taken place following the sale of plantations estates from various State ownership to the private sector

over the last 30 years. There was significant hardwood plantation development during this period driven by Managed Investment Schemes (MIS) but this has now finished and this hardwood plantation estate is also retracting with some of these plantations now being converted back to agriculture.

In any plantation expansion program, the significant increase in the cost of agricultural land is important as are the water licencing issues in South Australia. Taxation (Federal) or grant (State) initiatives could be used to help overcome this. But again, support for plantation expansion would be limited without improved domestic supply. Again, a strong social licence is required to get a successful result.