



23 Marcus Clarke Street  
Canberra ACT 2601

Our ref: AA1000539  
Contact officers: Robert Janissen  
Contact phone: 02 6243 1387

GPO Box 3131  
Canberra ACT 2601  
tel: (02) 6243 1111

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adjudication@acc.gov.au  
www.acc.gov.au

Julian Speed  
Chief Executive  
ForestrySA

*Sent by Email*

Dear Julian,

**Morgan Sawmill Jamestown - application for authorisation AA1000539 — request for information**

I refer to the application for authorisation lodged by Morgan Sawmill Jamestown (**Morgan**) on 18 December 2020 (the **Application**) and the submissions provided by ForestrySA on 27 January 2021 (**your first submission**) and 3 February 2021 (**your second submission**).

As discussed, to assist our assessment of the Application we are seeking clarification on a number of issues outlined below.

We request that you provide a response for publication on the ACCC's public register (and, if appropriate, a confidential version of that submission with additional information) by **9 April 2021**.

For convenience, Morgan Sawmill, KSI Sawmill, PalletCo, SA Pine and Harvestco will be referred to as 'the **Group**'.

**Competition for logs.**

1. The response to submissions provided by Morgan Sawmill on 18 February 2021 suggests that each member of the Group purchases logs of different grades or different lengths, with minimal overlap. However, your second response indicates that ForestrySA periodically receives competing bids for specific log parcels, including from members of the Group. **Please advise:**
  - a) **which members of the Group compete for logs and the grades/size/types of the log they pursue (in particular, please provide examples of instances in which members of the group have bid against each other for particular logs), and**
  - b) **What logs from the Mount Lofty Reserve have been sought and/or sold in the last three years. In particular, for each log sale agreement or proposal, whether or not it went to tender, please advise:**

- i. **which business(es) purchased logs, and for each business:**
    - a. **what volume was sought and purchased, sorted by the grade/size/type of log,**
    - b. **the price paid for each grade/size/type of log.**
  - ii. **whether any logs were exported, and if so:**
    - a. **what volume(s) were exported, sorted by the grade/size/type of log,**
    - b. **the price paid for each grade/size/type of log.**
  - iii. **whether any business(es) sought logs but did not secure an agreement to purchase them, and if so:**
    - a. **the volume(s) of each grade/size/type of log that they sought to purchase, and**
    - b. **the price offered for each grade/size/type of log.**
2. Your second submission states that, of the regular, ongoing sustainable annual cut volume of 155,000 tonnes from the Mount Lofty Ranges estate, on average, 145,000 tonnes (or 94%) is contracted to one or more members the Group.
- a) **To what extent do you consider that exporters and timber processors from outside the Group compete with members of the Group?**
  - b) **What process does ForestrySA follow to determine what volume of logs (and on what commercial terms) will be contracted to which buyers?**
  - c) **To what extent has the proportion of logs sold to Group members changed from year-to-year since 2016?**
  - d) **What businesses that might be interested in purchasing unprocessed timber logs, other than the members of the Group, can be found within 300km of the Mount Lofty Reserve?**
  - e) **Based on recent log tenders, how do the prices offered by members of the Group compare to prices offered by businesses outside the group for logs (including export prices and Australian businesses that export logs)?**
3. Your first submission noted an upcoming request for proposal in relation to 50,000 – 60,000 tonnes of commercial log from the Mount Lofty Ranges estate, which we understand ForestrySA has now issued. In relation to this request for proposal:

- a) **Please provide the names of each of the respondents to this request for proposal so far, the prices they tendered (per grade of log) and information as to the volumes and grades of log they are seeking?**
  - b) **Are you expecting to receive any further proposals that have not yet been received? And if so, from who?**
  - c) **What process will ForestrySA follow to determine what volume of logs (and on what commercial terms) will be contracted to which buyers?**
  - d) **Has ForestrySA calculated a benchmark price for the various grades of logs in this bundle, and if so, what are those benchmark prices and how were they calculated?**
4. Your second submission notes that the parcel of approximately 75,000 tonnes of logs that was put to tender by ForestrySA in 2020 attracted eight respondents, including members of the Group, other South Australian Processors and exporters (noting that four processors had facilities outside the Mount Lofty Ranges region).
- a) **Please describe the process followed by ForestrySA to determine which buyers were successful in tendering for these logs?**
  - b) **Please provide the names of each of the respondents to this tender, the prices they tendered (per grade of log) and information as to the volumes and grades of log they were seeking?**
  - c) **Please advise what the outcome of that tender was. I.e. Which business(es) won logs and (for each business) what volumes were won for each grade and at what price?**
  - d) **Did ForestrySA calculate a benchmark price for the various grades of logs in this bundle, and if so, what are those benchmark prices and how were they calculated?**
5. Noting that your second submission suggests the log tender described in question 2. was an ‘unusual offering’, **please provide answers to questions 2.(a) – (c) in relation to a tender for logs from the Mount Lofty Reserve that you consider represents a more typical supply scenario.**
6. **Please describe past circumstances in which ForestrySA has agreed to log supply agreements for terms exceeding five years. For any such agreements that were formed in the past 15 years, please advise:**
- a) **The process through which the agreements were formed,**
  - b) **The prices that were initially offered for the logs,**
  - c) **Whether there was a benchmark for the relevant logs, and what that benchmark was for each relevant grade of log.**

- d) **What was the agreed price for each grade of log and the volume to be collected during the term of the agreement.**

**Effect of interim authorisation**

- 1. Has the Group made contact with ForestrySA to discuss the possible collective acquisition of logs? If so, were these early discussions promising or concerning from ForestrySA's perspective?**
- 2. Has ForestrySA observed any delays or challenges in the negotiation of individual log supply agreements with members of the Group?**

**Other Queries**

- 1. Who pays the transport cost of logs collected from the Mount Lofty Reserve?**

This letter has been placed on the ACCC's public register. If you wish to discuss any aspect of this matter, please do not hesitate to call Robert Janissen (on 02 6243 1387) or email [exemptions@acc.gov.au](mailto:exemptions@acc.gov.au).

Yours sincerely



Darrell Channing  
Director  
Competition Exemptions