

FILE No:
DOC:
MARS/PRISM:

Sent by Facsimile: (02) 6243 1211

12 August 2005

The General Manager
Adjudication Branch
Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Sir,

**Applications for Authorisations A90973 & A90974 lodged by the
Tasmanian Forest Contactors Association Ltd.**

I am writing to formally object to the application by the Tasmanian Forest Contractors Association Ltd (TFCA) on behalf of their members to allow them to engage collectively to negotiate terms and conditions for contracts (including potential boycotting) with Norske Skog. It is Norske Skog's view that this would significantly impact on the competitive forces within our business.

Norske Skog is the world's second largest producer of publication paper, with 23 wholly and partly owned mills in 15 countries on five continents. In Australia Norske Skog has two paper Mills; the Albury Mill in News South Wales and the Boyer Mill in Southern Tasmania. The Boyer Mill produced Australia's first newsprint in 1941 and the current annual production of newsprint and related grades is around 290,000 t. This represents approximately 35% of Australia's consumption.

The Boyer Mill is one of Tasmania's largest employers (400 direct employees) and is a major contributor to the Tasmanian economy. Total annual turnover is approximately 300 million and in 2004 the Boyer Mill spent some 115 million dollars within Tasmania including 33 million dollars on direct wages. The Mill is a significant customer for electricity, coal, rail and wood.

The Boyer Mill has three main sources of fibre – radiata pine, regrowth eucalypt and recycled fibre. The pine is sourced from around the State as logs or chips, the eucalypt as logs from Southern Tasmania and the recycled fibre from the Norske Skog Albury Mill.

The logs are chipped, pulped and then utilised to make newsprint.

**AUST. COMPETITION &
CONSUMER COMMISSION
CANBERRA
17 AUG 2005**

Along with labour and energy, wood fibre constitutes the highest proportion of the cost all the inputs in producing newsprint.

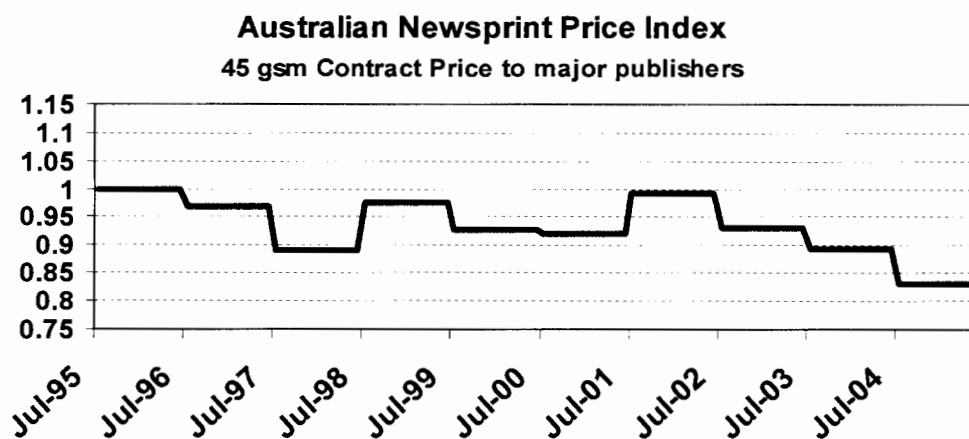
The Boyer uses approximately 550,000 tonnes of wood per annual and this is obtained from various sources and under various arrangements. These are summarised in the table below.

Pine	Supplier	Annual tonnage	
	Rayonier	120,000	Rayonier supplies at Mill gate
	Gunns	30,000	NSA contractors harvest and transport
	Norske Skog Plantations	180,000	NSA contractors harvest and transport
	Frenchpine	60,000	NSA contactor transports
Eucalypt	Forestry Tasmania	150,000	Various contactors supply including NSA, Forestry Tasmania and Gunns contactors
	Norske Skog forests	10,000	NSA Contractors

Norske Skog's Market.

Norske Boyer sells newsprint to all the major publishers in Australia including Newslimited, Fairfax, and West Australian News. Although Norske Skog is Australia's only domestic newsprint manufacturer there is intense competition in the marketplace from international producers.

The price that Norske Skog receives in Australia is directly related to the world commodity price for newsprint and determined on an annual basis. The graph below shows an Index of the actual Norske Skog price movements in nominal dollars over the last ten years.



The graph shows that although the newsprint price fluctuates over time, in nominal terms there has been a significant decrease in price of 17% over 10 years, an average of 1.7% per annum. In real terms this is significantly larger at about 4% reduction year on year. The price is impacted by the world market price and also exchange rate variations.

For the Boyer Mill to remain economically viable it must respond to this decreasing revenue by reducing costs of production. Any increase in price of a significant input such as wood, would significantly impact on the Boyer Mills competitiveness, create major difficulty in attracting further investment and threaten the Mills operation in Tasmania.

Through the current contactor engagement processes we have been able to maintain wood costs at reasonable and competitive levels. This has been achieved by working with contactors that have an ongoing commitment to productivity improvements including utilising effective equipment, innovative work practices and employing skilled staff.

Some examples of improvements made by our contractors include:-

- the introduction of high productivity transport vehicles, significantly increasing payloads.
- “double” shifting transport operations increased equipment utilisation,
- increased mechanisation for falling and debarking, increasing manpower productivity and safety
- “cording” of landings and snig track reducing equipment maintenance, fuel costs and environmental damage.
- Use of central tyre inflation on trucks reducing road pavement wear and improving accessibility to forest areas
- Greater focus on operator training, increasing productivity and reducing accidents.

Norske Skog has serious concerns that efficiency through improvements and innovation will not be translated to competitive costs under the collective bargaining processes as outlined in the TFCA submission.

Norske Skog Harvesting and Transport Contractors.

Norske Skog has six harvesting and transport contractors which supply 50% of the Norske Skog requirements. The remainder is supplied by contractors employed by Rayonier, Forestry Tasmania or Gunns Ltd. Any impact of collective negotiations on these companies will also directly impact on Norske Skog.

It is Norske Skog’s general practice to engage contractors in formal contracts for a period of five years. This recognises the need for contactors to have security to invest in the required equipment and provides certainty so that they can employ and retain skilled employees. Our contactors have been able to purchase state of the art,

efficient equipment and employ well trained and competent staff. Generally the contracts are renegotiated for another five year term prior to the contracts expiration.

The Norske Skog contracts have the following key attributes:

- Defined term, task and definition of work quantum (including minimum annual commitments).
- Matching work commitments to required equipment capitalisation.
- Rates structure that reflects different work conditions (eg short or long road hauls and different gross load requirements, equipment needs (eg ground based and cable harvesting), nature of the work.(eg thinning or clearfell)
- Annual indexation of rates based on movement of input costs relevant to the contract.
- Quarterly fuel reviews that adjusts rates if fuel prices have moved.
- In circumstances where “conditions” have changed a requirement for parties to meet and make genuine effort to agree to changes.
- Clear disputes procedures

The contracts are negotiated directly with the Principals who can and often do use specialist business advisors to assist them. These contracts are tailored to the specific tasks, equipment and technical requirements and meet the individual contactors and Norske Skog’s circumstances at the time. It is worth noting that Principals (even current members of TFCA) have not sought TFCA to assist in contractual negotiations with Norske Skog to date. Norske Skog has a demonstrated history of effective communication with our contractors to the mutual benefit of both parties.

Listed below are the current contracts with Norske Skog.

Contractor	Annual Tonnes	Initially commenced with NS
Transport 1	270,000	1998
Transport 2	160,000	1980
Harvest 1	140,000	1966
Harvest 2	100,000	1987
Harvest 3	100,000	1987
Harvest 4	35,000	2004 *

* purchased from contractor previously with Norske Skog for many years

These contracts have been reviewed over the last eighteen months and new five year terms entered into. It is of significant concern to Norske Skog that if TFCA is granted authorisation that negotiated changes would then be sought to apply to these existing contracts. These were negotiated in good faith by the parties and we are not aware of any outstanding matters regarding our contractual relationships.

Norske Skog Silvicultural Contractors

The nature of Silvicultural work with Norske Skog is significantly different than the harvesting and transport work.

It is:-

- Seasonal and not available throughout the full year,
- Significantly variable quantity from year to year and very difficult to predict the future quantum.
- The various aspects often require differing skills.
- It generally does not require the same level of capital investment in equipment.

It is therefore not possible for Norske Skog to give long term contracts to suppliers for full time work. However it is our practice, when work is available to award it local contractors. We currently utilise two contractors they have worked with us, when work is available since 1991.

Public Good

The TFCA maintains that that there are a number of public benefits that flows from a collective bargaining approach. Norske Skog does not believe that the TFCA has been able to substantiate this.

Safety.

Within Norske Skog operations there is no evidence that contractors are working and “pushing the envelope” in regards to safety. For all Norske Skog contractors safety and health is a first priority and this is clearly evidenced on their operations. Norske Skog and the Contractors work very closely together to improve the safety outcomes. Specific indicatives included improvements in Contractor Safety Management systems through the provision of Company sponsored Safety consultants, auditing and general awareness programs such as the quarterly contractor Health and safety forums and “toolbox” meetings. Over the last 12 months there has been a significant reduction in the number of loss time accidents within the contractor workforce. The AMFR (Annual Moving Frequency Rate for loss time accidents per million hours worked) has dropped from 30 to 10 a very credible achievement.

Employment and Training

Although Norske Skog acknowledges that in some areas of the industry there are current shortages of skilled labour, but this is not unique to the forestry industry. We currently have a shortage of experienced applicants for many areas in the Boyer Mill including tradesman, operators and specialists. This is also the case in many other industry sectors and is related to the strong economic growth rather than as the TFCA infers financial pressures on contractors because of the lack of collective bargaining.

We believe that the five year contractual terms provides security to contactors so that they are able to attract skilled labour and invest in training.

For many of our current contactors their children are taking and active role in the business after leaving school.

Transaction Cost

Norske Skog is of the view is that the current transaction costs are already very low. Contracts are negotiated only every 5 years and normally over a short period of time. Legal costs are low as the various contracts use similar templates and reviews are easily calculated based on non ambiguous inputs.

The involvement of TFCA might in fact add costs as their will be another layer of interaction through negotiations. Norske Skog would still wish to deal with each contractor principle. The use of a rates matrix (as proposed by the TFCA) often leads to increased negotiation and potential disputation as the parties need to agree coupe by coupe how the matrix is applied. It has been Norske Skog experience that it is often difficult to have objective measures for such matrixes.

Industry Sustainability

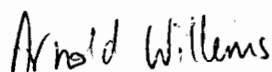
We do not see any evidence in the number of professional forest contacting resources being available to Norske Skog. We believe that based on our contractual terms it is viable to invest in the capital required.

In fact we are of the view that if we did move to collective bargaining and boycott processes reduces efficiency, increasing costs and reducing the variability and sustainability of the Boyer Mill.

In conclusion we do not believe that there would be any public benefit to flow from collective bargaining and boycotting and the proposed arrangements as set out by the TFCA in fact could lead to reduced competition and efficiency within the industry and risk the long term viability of the Norske Skog Boyer Mill. We thus believe that the authorisations sought by the TFCA should not be granted.

If you have any queries or wish to discuss this matter further, please do not hesitate to contact me on 03 62610184.

Yours faithfully
NORSKE SKOG



Arnold Willems

SUPPLY & LOGISTICS MANAGER