

Softwood Tasmania Joint Venture – Authorisation A91120-A91122

ACCC, Blake Dawson and GMO Renewable Resources (GMORR) teleconference
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Market Information

GMORR is an investment manager, which specialises in managing investments in forest plantations globally. GMORR manages 13 timber funds in Australia, North America, South America and Europe.

GMORR is not a participant in the STJV, but does have a small interest in the two investment vehicle participants in the STJV, and advised on their establishment.

The parties involved in the STJV do not have other interest in companies within Australia. The investment vehicles and operator were established for the purpose of the joint venture.

STJV is responsible for the management of the land and growing of new trees. STJV does not supply timer products. Rather, saw logs produced and sold by the STJV are sold to mills to produce timber from the logs.

In general, four generic grades of logs can be produced from each tree, namely: Pruned logs (high grade), structural logs (for use in building), utility logs and pulp logs (paper, chipboard). Every tree produces some of each grade (although the production of Pruned grade is dependent on the tree having been pruned).

- STJV currently owns 45,000 hectares of plantation softwood forest in Tasmania which currently provides approximately [REDACTED] tonnes of log per annum of which [REDACTED] tonnes is sawlog grade (the remainder being pulp logs).¹
- Forestry Tasmania has around 3-5,000 hectares of softwood plantations that are not included in the joint venture arrangements, currently providing approximately [REDACTED] tonnes of saw log per annum.

Generally, Tasmanian mills source softwood logs from Tasmania as the transport costs are a factor in sourcing logs from the mainland of Australia or internationally.

In general, improvements in technology have allowed newer mills to take both softwood and hardwood logs, although older mills are more suited to one type of log or the other.

The main purchasers of logs derived from the STJV are Gunns/Auspine (with Auspine now owned by Gunns), FEAT and Norske Skog. Other customers include Branxholm, Mole Creek, DIM, Ta Ann Koppers, Smart Fibre and Kelly Gang.

Pricing

¹ The volume of saw log produced depends on a range of factors, including the age of the forest and the desired maturity of the trees prior to harvesting.

- Pricing of saw logs is determined by negotiation between the STJV and its customers, which have in the past included customers in Asia (particularly Korea). While saw logs are not typically imported into Tasmania and, for the moment at least are not being exported from Tasmania, the demand for Tasmanian saw logs in Asia means that the alternative pricing available to Tasmania producers provides guidance as to the prevailing price in Tasmania. Similar dynamics operate globally.
- Prices are set through direct negotiation with mills, through a tender process or auctions. Uncontracted volume can be sold on the spot market. In Australia long term supply agreements for saw logs are common.

Export

- To date, STJV has exported approximately [REDACTED] tonnes per annum, mostly to Korea but some to other Asian countries.
- STJV is currently not exporting any product because there is sufficient local demand at prices acceptable to the STJV.

Joint Venture

- The STJV participants do not believe they are in competition with each other. The Investment Vehicles were established solely for the purpose of the joint venture arrangements and would not exist, but for the joint venture arrangements. Forestry Tasmania would own 100% of the assets if the STJV had not been formed.
- No two trees are the same or have the same characteristics. For this reason, it was not possible for Forestry Tasmania to facilitate investment in the forestry asset unless the investment took the form of a joint venture, with the joint venture participants owning the forestry assets as tenants in common, rather than owning specific parcels outright.
- As a result, and as a matter of commercial and logistical practicality, it was necessary for the respective joint venture participants to have joint management, sales and marketing arrangements.
- A benefit from the joint venture is providing for significant investment into the future.

Authorisation issues

- The STJV participants confirmed they were seeking authorisation for those parts of the relevant agreements that may raise trade practices issues, rather than the joint venture arrangements as a whole.
- STJV is of the view that it is not engaging in conduct which would breach the Trade Practices Act.
- The applications for authorisation have been lodged out of an abundance of caution.
Absent of authorisation, the counterfactual situation is unlikely to be different to the situation with authorisation. That is the STJV would likely continue to operate.

- The certainty provided by authorisation will enable the STJV to drive investment and commercialisation.
- STJV noted that the ACCC has in the past granted longer term authorisations in the mining sector, for example.