



Statement of Issues

26 September 2019

New Forests managed fund – proposed acquisition of RMS' Tasmanian assets

Global Forest Partners advised fund – proposed acquisition of RMS' Tasmanian assets

Purpose

1. Resource Management Service LLC (**RMS**) is selling its Tasmanian hardwood plantations and an interest in the Plantation Export Group (**PEG**) (**the RMS assets**) via a competitive tender.
2. Two of the parties proposing to bid to acquire those assets are:
 - A forestry investment fund managed by New Forests Asset Management (**New Forests**) (this is referred to as the **New Forests acquisition**)
 - An investment fund advised by Global Forest Partners LP (**GFP**) (referred to as the **GFP acquisition**).
3. This Statement of Issues:
 - gives the preliminary views of the Australian Competition and Consumer Commission (ACCC) on competition issues arising from the proposed acquisitions;
 - identifies areas of further inquiry
 - invites interested parties to submit comments and information to assist our assessment of the issues.
4. Statements of Issues give preliminary views and do not refer to confidential information provided by the parties or other market participants, therefore they may not be a full articulation of the ACCC's preliminary position.

Overview of ACCC's preliminary views

5. The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
6. The ACCC divides its preliminary views into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to raise concerns'.
7. The ACCC considers that access to different export options is important to maintain competition for the acquisition of hardwood chipping logs from private plantation owners. Concentration in the number of buyers of logs could lead to buyer power that would interfere with the efficient operation of the market by distorting price signals leading to inefficient resource allocation.

Issue of concern – New Forests acquisition

8. The ACCC is concerned that the New Forests acquisition is likely to lead to the loss of alternative woodchip exporters at Burnie, such that the only woodchip exporter is owned by a New Forests fund, which would become the sole buyer of woodchips. This is likely to impact competition to acquire chipping logs from private plantation owners and may distort decisions about future investment in hardwood plantations.

Issue that may raise concern – New Forests acquisition

9. The New Forests acquisition may lead to a reduction in the number of woodchip exporters at Bell Bay. This would reduce the number of potential buyers of logs, which may increase their buyer power in dealing with private plantation owners and result in a distortion of price signals and a reduction in prices paid to private plantation owners.

Issue that may raise concern – GFP acquisition

10. The ACCC is also concerned that the GFP acquisition may similarly lead to a reduction in the number of woodchip exporters at Bell Bay. This would reduce the number of potential buyers of logs, which may increase their buyer power in dealing with private plantation owners and result in a distortion of price signals and a reduction in prices paid to private plantation owners.

Issue unlikely to raise concerns – GFP acquisition

11. The ACCC considers that the GFP acquisition is unlikely to raise concerns at Burnie. While the acquisition may lead to diversion of exports to a related business of GFP this would involve new entry, largely replacing the existing second export operator. Further the ACCC understands that GFP/Reliance Forest Fibre doesn't currently purchase logs from private growers to a great extent. If it commenced its own export operation at Burnie it may become a larger competitor for logs from private plantation owners.

Making a submission

12. The ACCC is seeking submissions from interested parties on the following:
 - the likely impact of the New Forests and GFP acquisitions on buyers of chipping logs, exporters of woodchips and export operations at both Burnie and Bell Bay
 - if there is a reduction in the number of woodchip exporters from Burnie, would it affect the price paid to private plantation owners for logs, arising from an increase in buyer power?
 - if there is a reduction in the number of woodchip exporters from Bell Bay, would it affect the price paid to private plantation owners for logs?
13. Further discussion of these and other issues, along with specific questions, is contained in this Statement of Issues.
14. Interested parties should provide submissions by no later than 5pm on **10 October 2019**. Responses may be emailed to mergers@acc.gov.au with the title:
 - Submission re: proposed acquisition(s) of RMS - attention Amelia Richardson-Dear/Nigel Vise.
15. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this Statement of Issues, please contact Amelia Richardson-Dear on (07) 3835 4606 or Nigel Vise on (03) 9290 1468.
16. The ACCC anticipates making a final decision on **5 December 2019**, however, this timeline can change. To keep abreast of possible changes in relation to timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.

Confidentiality of submissions

17. The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

About ACCC 'Statements of Issues'

18. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.

19. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.
20. In reaching the views set out in this Statement of Issues the ACCC has taken into account information that was provided on a confidential basis.

Timeline

Date	Event
19/07/2019	ACCC commenced informal review of New Forests acquisition under the Informal Merger Review Process Guidelines
05/08/2019	Closing date for submissions re New Forests acquisition
05/09/2019	ACCC commenced informal review of GFP acquisition under the Informal Merger Review Process Guidelines
12/09/2018	Closing date for submissions re the GFP acquisition
26/09/2019	ACCC published this Statement of Issues
10/10/2019	Deadline for submissions from interested parties in response to this Statement of Issues
5/12/2019	Anticipated date for ACCC final decisions

The parties

RMS

21. RMS is selling its Tasmanian assets, which are the target of the potential acquisitions.
22. RMS is a global forest investment firm, headquartered in Alabama. RMS is selling its Tasmanian assets. These are plantations and a one third share of the Plantation Export Group (**PEG**).
23. RMS owns approximately 36,700ha of freehold land in Tasmania including approximately 19,000ha of plantation hardwood eucalyptus. Over 75 per cent of these plantations are located in Northwest and Northeast Tasmania. All of its Tasmanian products are exported.

New Forests

24. New Forests is a fund manager that manages investments in forestry assets for a number of investment funds established by it. It provides management services to each of those funds.
25. As noted above, one of the proposed purchasers of the RMS assets is a forestry investment fund managed by New Forests. The fund does not currently own any assets in Tasmania. However, New Forests already manages forestry and processing infrastructure in Australia and New Zealand, including in Tasmania, on behalf of separate funds, which have different groups of investors to the fund that is proposed to acquire the RMS assets.
26. In Tasmania, New Forests manages funds which, if considered collectively, own and manage over 85,000 hectares of hardwood plantations and over 45,000 hectares of softwood plantations. In addition to its hardwood plantations, companies owned by New Forests managed funds also acquire hardwood logs from private landowners.
27. The assets owned by another fund managed by New Forests are significantly vertically integrated. That fund owns Forico, which in turn owns hardwood plantations in Northeast and Northwest Tasmania, the Long Reach hardwood chipping mill and export facility in Northeast Tasmania, and the Forico Surrey Hills hardwood chipping mill in Northwest Tasmania.
28. New Forests markets and exports its hardwood chips and logs to customers through its marketing division, New Forests Timber Products. New Forests exports its products through the Ports of Burnie, Long Reach and Hobart. Forico has a Facility Management Agreement with TasPorts for the use of two of the three woodchip stockpiles at Burnie Port and for use of the Port's export facility.

GFP

29. Global Forest Partners LP (**GFP**) is a US-based investment adviser, which specialises in the structuring and management of international forestry investments. GFP provides advisory and management services to the funds.
30. GFP advises investment funds that own Reliance Forest Fibre. In 2017, Reliance Forest Fibre acquired 99 year forestry rights over approximately 27,000 ha of hardwood plantations in Tasmania from Sustainable Timber Tasmania (formerly Forestry Tasmania). Reliance Forest Fibre also controls a hardwood chipping mill and export facility at Bell Bay.
31. Another GFP advised fund owns Australian Bluegum Plantations Pty Limited. Australian Bluegum Plantations provides marketing and export services to Reliance Forest Fibre from Bell Bay.

Other industry participants

PEG

32. PEG was established in 2017 and is a joint marketing entity which markets and facilitates the export of woodchips to customers in Asia on behalf of RMS and other forest growers and processors. RMS, Pentarch and Midway are equal joint owners of PEG.
33. Midway has extensive forestry assets in the mainland states. In Tasmania it operates as a buyer and aggregator of logs from private plantation owners, which it has toll chipped and exported from Bell Bay via PEG.
34. PEG provides a service to chip owners whereby it markets a volume of chips aggregated from a number of owners and arranges for those chips to be exported.
35. PEG provides a means for the owners of smaller volumes of woodchips to access international buyers and achieve a competitive price. It does this by aggregating their chips for sale as a single package and finding buyers for the aggregated volumes. Without PEG, some sellers of wood chips may not be able to reach international buyers and would have to sell to an exporter such as Forico (New Forests) or Reliance Forest Fibre (GFP).
36. PEG currently markets woodchips on behalf of its shareholders and Sustainable Timber Tasmania.

Sustainable Timber Tasmania

37. Sustainable Timber Tasmania is a Tasmanian Government Business Enterprise responsible under State legislation for sustainably managing approximately 800,000 hectares of public production forest and undertaking forest operations for the production and sale of forest products from these forests. Sustainable Timber Tasmania manages native and plantation forests.
38. Sustainable Timber Tasmania has an agreement with TasPorts for the use of a stockpile at the Burnie port and Sustainable Timber Tasmania provides others with access to this stockpile via comingling arrangements. All of the plantation hardwood chips on this stockpile are exported via PEG. The stockpile is also used for native hardwood chips and the pile rotates between native and plantation chips (comingling of native and plantation chips would result in lower sale prices for the plantation chips).

Other private forest owners

39. New Forests, GFP and RMS are major private plantation owners/managers, with large plantation holdings. There are also a large number of other private plantation owners, who may be farmers, individuals, or family and investment companies. Generally, these owners do not have large plantations and usually sell their wood on a one-off basis for processing by other parties. They are generally unable to access export markets directly, and sell their logs to agents

that aggregate logs from multiple plantations and sell them as a bundle to chipping mills, or to chipping mills directly.

Forestry industry background

Plantation timber

40. Plantation timber is differentiated from 'native' timber, which is harvested from natural forests. Native timber is older than plantation timber and comprises multiple species. Timber plantations are made up of a single species. Eucalyptus plantations are known as hardwood plantations.
41. Hardwood timber can be used for producing saw logs used in the production of furniture, peeler logs used to produce veneer and ply-wood, and wood chips for use in paper production. There are different markets and prices for saw logs and chipping logs. However, depending on price, saw logs can be chipped. Chipping logs cannot be used as saw logs, as they are of a lower quality and age.
42. Generally, hardwood chips are considered to be of a better quality than softwood chips, as they have better fibre content and can be used for better quality paper. Accordingly, hardwood chips tend to sell at a higher price than softwood chips. Similarly, plantation hardwood chips are considered to be better quality than native hardwood chips and there is also a price difference between these types of chips.
43. Plantation hardwood tends to be harvested around 12-17 years of age for chipping. Where it is grown for saw logs, it tends to be older, as this improves the quality of the wood.

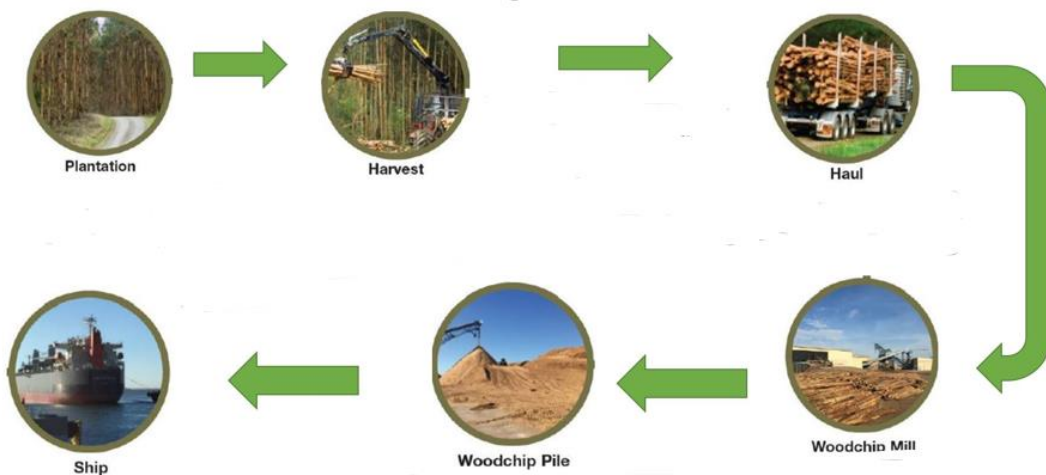
Chipping and export

44. The vast majority of hardwood plantation timber produced in Tasmania is exported, predominantly as wood chips, but also as whole saw logs. The customers are large international pulp and paper mills.
45. Typically small plantation owners are unable to access export markets directly, and sell their logs to chipping mills directly, or to agents that aggregate logs from multiple plantations and sell them as a bundle to chipping mills. It is largely the chipping mills or owners of large plantations that export woodchips.
46. Most chipping mills, including the vertically integrated GFP/Reliance Forest Fibre and New Forests, buy logs from private growers or agents. Mills without vertically integrated plantations (such as Pentarch – the owner of a chipping mill near Burnie) have no choice as they have no plantations of their own. Reliance Forest Fibre and New Forests which have their own plantations buy from private growers, in order to supplement their own supply if they don't have enough of their own trees maturing and ready for harvest.
47. Accordingly, there are a number of ways that logs can pass through the supply chain and enter the wood chip export market:
 - Vertically integrated growers such as Reliance Forest Fibre and New Forests may chip their own logs at their own chipping mills. They also buy logs from small growers and agents.

- Independent chipping mills may acquire logs from third party growers. Logs can be acquired 'at the mill gate' where the grower pays for harvest and haulage, or 'at the stump' where the buyer pays for the harvest and haulage.
- Agents may acquire logs from a range of small growers, usually 'at the stump' aggregating them into a large parcel to sell to chipping mills.
- Larger growers can pay chipping mills to 'toll chip' their logs for them and export the chips themselves (via co-mingling arrangements).

48. The ACCC understands that an effective exporter needs access to a large and regular supply of chips. Market feedback suggests that in order to be competitive in the international market, an exporter needs to supply a minimum of 3 to 4 ships per year. If an exporter is unable to meet this level of supply, it may have difficulty finding an international buyer. Even if it can find a buyer, it is likely to be less efficient and therefore less competitive in purchasing domestic logs or chips, as it will have less volume over which to spread its fixed operating costs. The ACCC understands that it is possible for ships to 'top up' at different ports. However, this incurs significant additional costs. Therefore having sufficient volume for the ships at a single port will result in a lower cost operation.

Stages in wood chip production



Relevant markets

Product dimension of the market

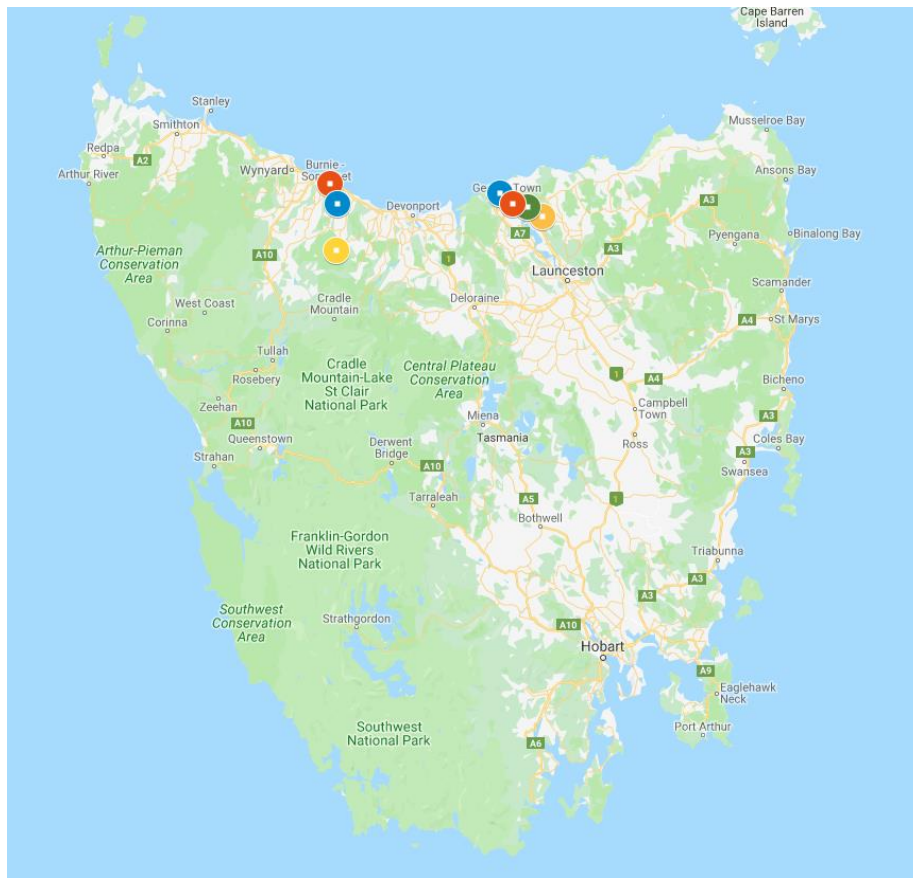
49. The ACCC's review has focussed on the acquisition of chipping logs sourced from hardwood plantations. However, the ACCC considers that there are likely to be further product markets for the acquisition of:
- Chipping logs sourced from native forests
 - Chipping logs sourced from softwood plantations
 - Saw or peeler logs.

50. As set out in the background section above, plantation hardwood, plantation softwood and native hardwood can all be chipped and used in pulp and paper production. However, chips from the different sources of timber have different levels of quality that affect price. Hardwood produces better quality paper than softwood. Plantation timber comprises a single species, generally of uniform age, whereas native timber comprises multiple species with a variety of ages. Plantation chips sell for more than native chips.

Geographic dimension of the market

51. The ACCC has not formed a final view of the appropriate geographic markets. However, it understands that there is limited substitution between Bell Bay and Burnie, with logs or woodchips generally being transported to the closest port.
52. The ACCC understands there are two main separate export channels for plantation hardwood chips from Tasmania:
- Northwest Tasmania (Burnie), and
 - Northeast Tasmania (Bell Bay/ Long Reach).
53. Generally, timber grown to the east of Bell Bay is exported via Bell Bay and, timber grown to the west of Burnie is exported from Burnie. Timber grown between Burnie and Bell Bay is usually exported from the closest port but may in some circumstances be transported to the further port. However, the ACCC understands that transporting logs from Northwest Tasmania to Bell Bay for chipping and export, or vice versa, would generally not be a competitive alternative to using the closest port due to the additional transport costs.
54. The ACCC understands that port costs at Bell Bay are cheaper than at Burnie. However, these reduced port costs would generally not offset the additional transport costs of trucking logs from the Northwest to Bell Bay, although the lower costs shift the point at which Bell Bay becomes viable to the west of the line of equidistance between Bell Bay and Burnie.
55. Because there are no chipping mills in the south, chipping logs from southern plantations are transported to Bell Bay, often by rail.

Map of woodchipping mills and export terminals



Woodchip export terminal



GFP chipping mill



New Forests chipping mill



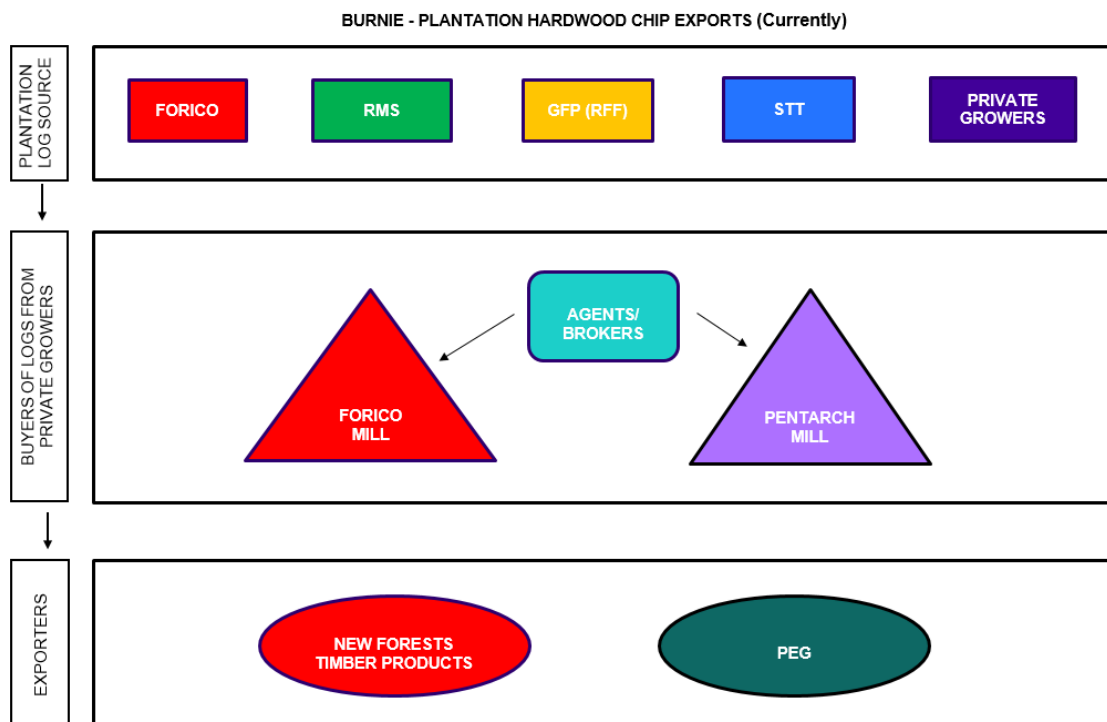
Third party chipping mill

Woodchip exports from the Northwest

56. At present there are two export operators at the Port of Burnie. These are:
- Forico (owned by a New Forests managed fund) which has a chipping mill (at Surrey Hills, 30km south west of Burnie) and uses the export operation of an associated entity (New Forests-managed New Forests Timber Products), and
 - PEG which, as noted above, supplies a marketing service to third parties. Generally, the chips PEG exports are chipped by Pentarch at Massy-Greene, South Burnie.
57. Forico undertakes its own marketing and export operations (through New Forests Timber Products). Forico controls two of three wood chip piles at the Burnie port and exports wood chips through New Forest Timber Products. The

ACCC understands that Forico acquires logs from private growers as well as its own plantations. The ACCC is not aware of any third party owner of woodchips that has co-mingled its chips with Forico’s chips or used New Forests Timber Products’ export and marketing operation.

58. In Burnie, PEG provides a channel for its shareholders and some third parties to export woodchips. Market feedback suggests that each of these exporters (with the possible exception of RMS) would not have sufficient volumes of plantation hardwood chips out of Burnie to independently attract international buyers.
59. In particular, PEG enables Pentarch, which owns the other chipping mill in Northwest Tasmania, to export woodchips. Pentarch does not own any plantations, instead it competes with Forico to buy logs from private plantation owners in the Northwest.
60. The ACCC understands that RMS provides the largest volume of plantation hardwood woodchips sold by PEG, and that Sustainable Timber Tasmania is currently undertaking a thinning program which is contributing to its volumes.

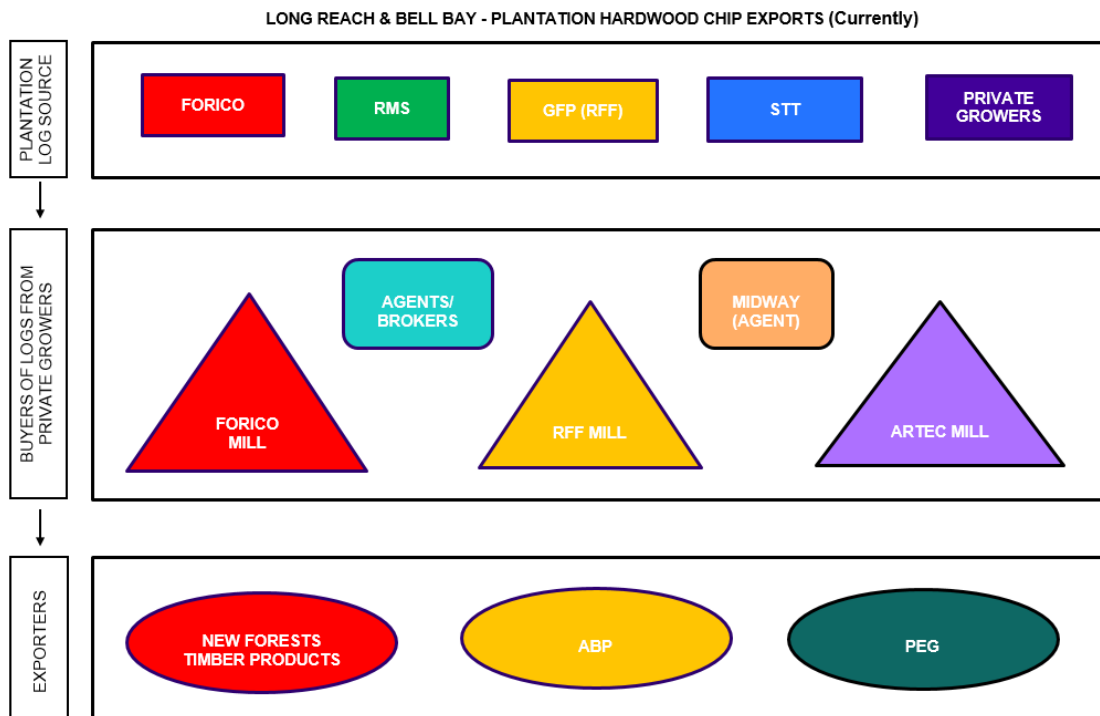


Woodchip exports from the Northeast

61. At present there are three marketing and export operators in Northeast Tasmania:
 - Australian Bluegum Plantations (which is owned by a fund advised by GFP, and exports Reliance Forest Fibre woodchips) at Bell Bay
 - PEG at Bell Bay, and

New Forests, and GFP – proposed acquisitions of RMS’ Tasmanian assets

- New Forests Timber Products (which is owned by a fund managed by New Forests and exports Forico’s woodchips) at Long Reach (approximately 15km from Bell Bay).
62. Forico (and associated entities) and Reliance Forest Fibre (and associated entities) operate at all levels of the vertical supply chain at Bell Bay/Long Reach:
- Forico owns plantations and a chipping mill. Associated New Forests-advised entity New Forests Timber Products owns an export operation
 - Reliance Forest Fibre owns plantations and a chipping mill. Associated GFP-advised entity Australian Bluegum Plantations owns an export operation.
63. There is also a third chipping mill owned by Artec which provides toll chipping services.
64. PEG provides a marketing and export service to its shareholders (RMS and Midway), and also to Sustainable Timber Tasmania, giving each of them an export option instead of having to sell to Forico or Reliance Forest Fibre.
65. Midway, Artec, Forico and Reliance Forest Fibre compete with each other to buy chipping logs from private plantation owners. By providing an export option for Midway in particular, PEG enables them to compete more effectively with Forico and Reliance Forest Fibre in the acquisition of logs from private sellers.



Barriers to entry

Access to sufficient volumes

66. Market feedback suggests that volumes are important to the efficient and ongoing operation of a woodchip exporter. Larger volumes allow for more regular shipments, shorter periods of stockpiling and stronger bargaining power in negotiations with international buyers. Market participants have generally reported that the minimum volume for an export operator to be viable is 3-4 ship loads per year. Ships generally carry between 40-50,000 Green Metric Tonnes (**GMT**) of woodchips so in order to supply 3-4 ships per year an exporter would need minimum volumes of approximately 120,000-160,000 GMT per year.
67. Wood chips deteriorate over time, leading to a reduction in quality and price. The ACCC understands that generally the maximum period of stockpiling before deterioration is three to four months, meaning that shipments need to be at least quarterly. The ACCC also understands that international purchasers are prepared to pay more for larger volumes and regular supply.
68. The large plantation owners, Forico, RMS and Reliance Forest Fibre, hold the majority of hardwood plantations and therefore the majority of woodchip log volumes. Sustainable Timber Tasmania also has a large area of hardwood plantation however the ACCC understands that its volumes will reduce in the next one to two years.
69. Without access to Forico, Reliance Forest Fibre or RMS volumes, any new exporter would find it difficult to accumulate sufficient volumes to be able to efficiently export wood chips. Even if it could operate, it is likely sellers using its export operation would achieve lower prices and consequently act as a weaker constraint on Forico and/or Reliance Forest Fibre in the acquisition of woodchips or logs from growers.

Burnie-specific barriers

70. There are considerable barriers to starting a new woodchip marketing and export business from Burnie. Firstly, chips need to be stockpiled at a location where they can then be loaded onto ships. At Burnie there is space for three stockpiles. Two of these are controlled by Forico and the third is controlled by Sustainable Timber Tasmania which provides access to third parties through a comingling arrangement. An exporter would need to obtain access to comingling their chips on one of these piles. There is no space at Burnie port for an additional pile without reconfiguring the infrastructure.
71. There are limitations on comingling, due to differences in woodchips. The Sustainable Timber Tasmania pile already alternates between native and plantation woodchips. This affects when woodchips can be added and when ships can arrive. Sufficient volumes of plantation chips are required to accumulate within a period to ensure efficient rotation between native chips and plantation chips on the pile. The ACCC also understands that whether or not timber is certified can impact access to a pile, as uncertified woodchips comingled with certified chips may devalue the entire pile. Market feedback suggests that much of the privately owned timber is uncertified.

Issue of concern (New Forests acquisition): potential for the creation of a monopoly for the acquisition and export of woodchips in Northwest Tasmania

Removal of volumes from alternative exporters at Burnie

72. The ACCC considers it likely that if the New Forests acquisition was to proceed, New Forests would divert RMS' volume of woodchips from PEG to Forico's export operation. The loss of RMS's volume of wood chips would reduce the volume of chips available for PEG to market, and there is a significant risk that PEG would become commercially unviable and cease to operate from Burnie. It is unlikely that there would be sufficient volumes available to support new entry to replace PEG. The loss of an alternative export channel would leave Forico as the sole exporter of plantation woodchips in Northwest Tasmania.
73. Without a second export channel, buyers of logs from the Northwest such as Pentarch would likely have to sell their woodchips to Forico. This would cause Pentarch and sellers of logs (such as agents) to become price takers, distorting price signals by reducing the price they could pay to private plantation owners and weakening the pricing constraint they impose on each other and Forico in the acquisition of logs. This may lead to distorted decisions about future investment in hardwood plantations.

ACCC's preliminary views

74. In view of the apparent importance of RMS' volumes to the viability or efficiency of an alternative hardwood chip marketing and export operation at Burnie, the ACCC is concerned that the likely diversion of RMS' volumes to Forico's export operation following the proposed acquisition would:
- lead to the weakening or removal of the second export operation at Burnie
 - leave Forico as the only exporter at Burnie. This would weaken the constraint imposed on Forico in the acquisition of logs from growers and lead to a distortion of price signals to growers.

The ACCC invites comments from market participants on its concerns in relation to the ability of an alternative marketing and export operation to continue to operate at Burnie without the volumes of woodchips supplied by RMS, and the impact this would have further up the supply chain. In particular, market participants may wish to comment on the following:

- The volume of woodchips required by an export operator to attract international customers and be able to negotiate price with those customers.
- The volume of woodchips and plantation logs that would be available at Burnie from sources other than Forico and RMS.
- The impact on the price paid for hardwood chipping logs in the Burnie area if Forico was the only end buyer of woodchips.

- The ability of an alternative exporter to export plantation hardwood chips without RMS' volumes.

Issue that may raise concerns (New Forests acquisition): concentration of acquirers of logs from private plantations in Northeast Tasmania

Removal of volumes from alternative exporters at Bell Bay

75. The ACCC also considers that, if the New Forests acquisition proceeds, New Forests would likely divert the sale and export of RMS' chips from PEG to its own operation, New Forests Timber Products, in Northeast Tasmania. RMS is the largest supplier of volumes marketed and exported by PEG. Market feedback suggests that the loss of these volumes creates a significant risk of PEG becoming less efficient or commercially unviable and ceasing to operate at Bell Bay.
76. If Midway no longer had access to PEG to market and export its woodchips, Forico and Reliance Forest Fibre would be its only options to sell to. Forico and Reliance Forest Fibre would gain increased buyer power and competing buyers would have a reduced ability to effectively compete with Forico and Reliance Forest Fibre in the acquisition of logs from private growers or agents. This may lead to a reduction in the price they could pay to private plantation owners and weaken the pricing constraint they impose on each other, and Reliance Forest Fibre and Forico, in the acquisition of hardwood plantation logs. This may then lead to distorted decisions about future investment in hardwood plantations.

ACCC's preliminary views

77. In view of the apparent importance of RMS' volumes to the viability or efficiency of a third hardwood chip marketing and export operation at Bell Bay, the ACCC is concerned that the likely diversion of RMS' volumes to Forico's export operation following the proposed acquisition may:
- lead to the weakening or removal of the third export operation at Bell Bay
 - leave Forico and Australian Bluegum Plantations as the only exporters at Bell Bay. This would weaken the constraint imposed on Forico and Reliance Forest Fibre in the acquisition of logs from growers and may lead to a distortion of price signals to growers.

The ACCC invites comments from market participants on its concerns in relation to the ability of an alternative marketing and export operation to continue to operate at Bell Bay without the volumes of woodchips supplied by RMS, and the impact this would have further up the supply chain. In particular, market participants may wish to comment on the following:

- The volume of woodchips required by an export operator to attract international customers and be able to negotiate price with those customers
- The volume of woodchips and plantation logs that would be available at Bell Bay from sources other than Forico and RMS.

- Does the ability of multiple firms to export through PEG increase competition for logs from private plantation owners?
- The impact on the price paid for hardwood chipping logs in the Bell Bay area if Forico and Reliance Forest Fibre were the only end buyer of woodchips.
- The ability of an alternative exporter to export plantation hardwood chips without RMS' volumes.
- Is it feasible to export both plantation and native chips in the same vessel without mingling them (i.e. in separate cargo holds)? Could the native and plantation chips be sold to the same buyer? Would there be additional costs in shipping two types of chips?

Issue that may raise concerns (GFP acquisition): concentration of acquirers of logs from private plantations in Northeast Tasmania

Removal of volumes from alternative exporters at Bell Bay

78. The ACCC considers that, if the GFP acquisition proceeds, GFP would likely divert the sale and export of RMS' chips from PEG to its related operation, Australian Bluegum Plantations. RMS is the largest supplier of volumes marketed and exported by PEG. Market feedback suggests that the loss of these volumes creates a significant risk of PEG becoming less efficient or commercially unviable and ceasing to operate at Bell Bay.
79. If Midway no longer had access to PEG to market and export its woodchips, Forico and Reliance Forest Fibre would be its only options to sell to. Forico and Reliance Forest Fibre would gain increased buyer and competing buyers, such as Midway, would have a reduced ability to effectively compete with Forico and Reliance Forest Fibre in the acquisition of logs from private growers or agents. This may lead to a reduction in the price they could pay to private plantation owners and weaken the pricing constraint they impose on each other, and Reliance Forest Fibre and Forico, in the acquisition of hardwood plantation logs. This may then lead to distorted decisions about future investment in hardwood plantations.

ACCC's preliminary views

80. In view of the apparent importance of RMS' volumes to the viability or efficiency of a third hardwood chip marketing and export operation at Bell Bay, the ACCC is concerned that the likely diversion of RMS' volumes to Australian Bluegum Plantations' export operation following the proposed acquisition may:
- lead to the weakening or removal of the third export operation at Bell Bay
 - leave Forico and Australian Bluegum Plantations as the only exporters at Bell Bay. This would weaken the constraint imposed on Forico and Reliance Forest Fibre in the acquisition of logs from growers and may lead to a distortion of price signals to growers.

The ACCC invites comments from market participants on its concerns in relation to the ability of an alternative marketing and export operation to continue to operate at Bell Bay without the volumes of woodchips supplied by RMS, and the impact this would have further up the supply chain. In particular, market participants may wish to comment on the following:

- The volume of woodchips required by an export operator to attract international customers and be able to negotiate price with those customers
- The volume of woodchips and plantation logs that would be available at Bell Bay from sources other than Reliance Forest Fibre and RMS.
- Does the ability of multiple firms to export through PEG increase competition for logs from private plantation owners?
- The impact on the price paid for hardwood chipping logs in the Bell Bay area if Forico and Reliance Forest Fibre were the only end buyer of woodchips.
- The ability of an alternative exporter to export plantation hardwood chips without RMS' volumes.
- Is it feasible to export both plantation and native chips in the same vessel without mingling them (i.e. in separate cargo holds)? Could the native and plantation chips be sold to the same buyer? Would there be additional costs in shipping two types of chips?

Issue unlikely to raise concerns (GFP acquisition): impacts in Northwest Tasmania

Removal of volumes from alternative exporters at Burnie

81. Reliance Forest Fibre currently markets and exports its own woodchips from Bell Bay via a related entity, Australian Bluegum Plantations. However Australian Bluegum Plantations does not currently operate from Burnie.
82. The ACCC considers it likely that if the GFP Acquisition was to proceed, Australian Bluegum Plantations would commence operating from Burnie and GFP would divert RMS' volume of woodchips from PEG to Australian Bluegum Plantations' export operation. The loss of RMS' volume of wood chips would reduce the volume of chips available for PEG to market, and there is a significant risk that PEG would become commercially unviable and cease to operate from Burnie.
83. The entry of Australian Bluegum Plantations would act to replace PEG, so the number of export operations from Burnie would be unchanged. There may be a slight reduction in competition, as PEG acts to facilitate multiple exporters whereas Australian Bluegum Plantations would most likely be a single exporter. However, the ACCC's preliminary view is that this is unlikely to amount to a substantial lessening of competition.
84. The GFP acquisition may mean that buyers of logs from the Northwest such as Pentarch would have to sell their woodchips to Forico or Reliance Forest Fibre rather than having the option to export directly, as is the case with PEG.

Pentarch may become a weaker competitor in the acquisition of logs from private plantation owners. However, the entry of Australian Bluegum Plantations may mean that Reliance Forest Fibre would become a buyer of logs from private plantation owners, which the ACCC understands it only does to a small extent at present in the Northwest.

ACCC's future steps

85. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter. Submissions are to be received by the ACCC no later than **10 October 2019** and should be emailed to mergers@acc.gov.au.
86. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
87. The ACCC intends to publicly announce its final view by **5 December 2019**. However the anticipated timeline may change in line with the *Informal Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement to explain its final view.