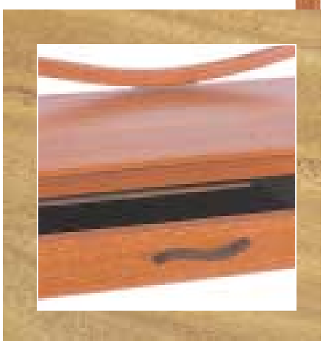
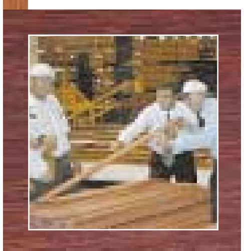




GOVERNMENT OF WESTERN AUSTRALIA

FOREST INDUSTRY STATEMENT

JANUARY 2004

Government of Western Australia

Forest Products Commission
WESTERN AUSTRALIA

Acknowledgements

We would like to acknowledge the hard work and input of a wide range of individuals, agencies, industry and community bodies that have been committed to the restructuring of the timber industry over the past three years:
Department of the Premier and Cabinet, Department of Industry and Resources, Department of Employment and Training, Department of Community Development, Department of Treasury and Finance, South-West Development Commission, Forest Policy Coordination Office, Department of Conservation and Land Management, Crown Solicitor's Office, Forest Industries Federation of WA, Timber Communities Australia, Furnishing Industry Association of Australia, Australian Workers Union, Construction, Forestry, Mining and Energy Union, Manjimup Shire and other local government authorities.

KIM CHANCE
Minister for Agriculture, Forestry & Fisheries

Introduction

With the election of the Gallop Labor Government in February 2001, and the immediate cessation of logging in the State's old growth forest, Western Australia's timber industry began a process of transformation that set out to alter the dynamics of the industry. Formerly based on low value and construction products, the Government's vision was to achieve conversion to high value adding and job rich opportunities.

Western Australia's native timbers are unlike any other in the world. Our jarrah, karri, marri, sheoak, wandoo and arid zone timbers have unique qualities. They are complemented by the timbers that we are able to grow in plantations. Restructuring of the way the industry functions is an important part of the old growth forest policy.

The Government's policy *Protecting our old-growth forests* has three objectives consistent with the triple bottom line:

(1) to end logging in the old growth forest; create new national parks and other conservation reserves *(Environmental)*;

(2) to develop a job-rich value adding stream, using native timbers to their highest value potential *(Social)*; and

(3) to create investment in new enterprise that can add economic value to the State, including financial and personal assistance to individuals and businesses to enable them to adjust to the necessary changes *(Economic)*.

The purpose of this paper is to set out the Government's objectives and its vision for the future of the whole timber industry and its "downstream" effect. The document complements the Forest Management Plan 2004-2013, which sets out the ways in which the public forests of the State's South-West are to be managed.

Kim Chance
Minister for Agriculture, Forestry & Fisheries

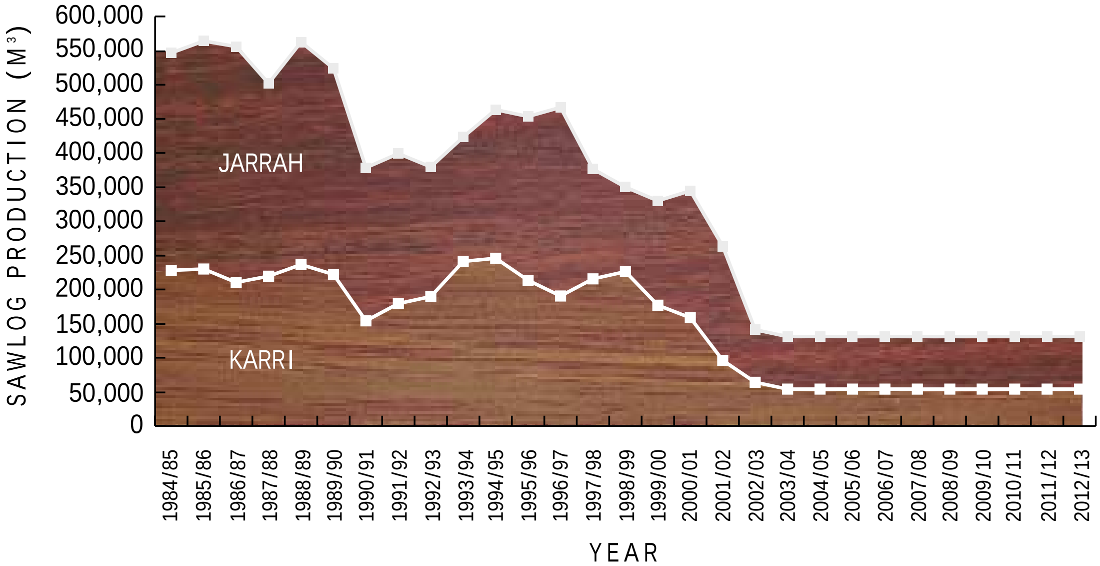
The Vision

The Government's vision for the timber industry of Western Australia encompasses:

- a high value native timber industry, providing high levels of employment and robust economic value to the South-West region;
- the efficient use of native timbers not suitable for high value uses;
- a profitable plantation industry producing a range of commodity products for local, interstate and overseas markets including construction timbers, panels, and fibre for pulp and paper products; and
- a growing tree farm estate in lower rainfall agricultural areas contributing environmental services (control of salinity, waterlogging, erosion and sequestration of carbon dioxide) as well as new and diversified industry in regional Western Australia.

South-West Industry and Resource

Application of the Government's old growth forest policy and provisions of the Forest Management Plan has retained access to native South-West timbers, albeit on a reduced scale. More than half the State's South-West forests are now within formal or informal reserves or are in planned reserves and being managed as if those reserves had already been proclaimed.



Historically, much of our native timber was used in green-sawn form for house construction, rail sleepers and otherwise utilised in ways that do not reflect the value and scarcity that we now place on our timber. Substantial progress has been made with value adding in the past 15 years, with 60 to 70 per cent of the sawmill output now being kiln dried, and used for decorative purposes, including flooring, joinery and increasing quantities of furniture manufactured in Western Australia.

Jarrah is a fine-grained, dense timber that has traditionally been suited to a wide range of indoor and outdoor, appearance and structural end uses. These end uses reflect its strength, durability and warm, rich colour. The natural characteristics of jarrah trees, and the quantity of regrowth from heavy timber cutting in the early part of the last century provide a large quantity of jarrah that is not suitable for sawmilling, either due to its small size or presence of internal defects. Jarrah residue is not suitable for papermaking, which has limited its use compared with other timbers. However, it is low in ash and impurities which makes un-millable jarrah suitable for activated carbon, industrial charcoal or domestic firewood.

Marri is a timber with beautiful yellow tones and interlocked grain. However, it can have extensive gum veins and imperfections, which means only a small volume - less than ten percent - of marri logs can be produced for sawmilling and manufacturing. It is gaining wider acceptance among furniture manufacturers with demand outstripping supply. Marri residue, or low grade logs are not suited for firewood or charcoal, but make moderate quality paper when its short fibres are mixed with long fibres from softwood timbers.

Karri is strong, dark timber like jarrah, but is less durable in outdoor applications and more difficult to glue and "finish" in end uses like furniture. Research over the past ten years is helping to turn karri into a more sought-after resource for flooring and potentially for furniture.

In 2002/03, a competitive process (Request for Proposals) was run to determine contract allocations under the Forest Management Plan 2004-2013. Under the resulting contracts, our native timbers will be used in applications that both recognise their scarcity and which will maximise the number of jobs that can be created within the higher value-adding stream. Primarily the end-use of millable Western Australian native timber will be in furniture manufacture and in flooring and moulded products.

Significant progress has already been made towards this objective. Two sawmills, at Greenbushes and at Nannup, which have secured access to jarrah resource under earlier restructuring initiatives now support high levels of processing and, in one case, furniture manufacture on site. Similar arrangements are now in place in Pemberton for the karri resource. From 1 January 2004, new contracts apply to the successful bidders for jarrah sawlog resource, and these will see development of stronger linkages with downstream manufacturers. Such linkages were important commitments in business plans under the Request for Proposals, and will be enforced through conditions in log supply contracts with each company.

Investment for this development will be facilitated by the Government's commitment to Financial Security Guarantees of up to 20 years. These guarantees will specify the financial payment to be provided to a company in the event that it is not offered a contract as a result of any reductions in timber harvest caused by future changes in Government policy. These guarantees will also be linked to the value adding requirements of the log supply contract.

A range of other speciality timbers come from the forest, including feature grade sawlogs, burls, and other species; sheoak, wandoo, and blackbutt. Smaller pieces are suited for craftwood. Together these provide a diverse array of products for fine furniture through to pieces of wood turning and artistic work, as well as lighter timber and figurative timber for joinery and flooring. The Government has contributed to development of these uses through support of bodies such as the Australasian School of Fine Wood at Dwellingup and Craftswest.

Through these measures and part of its $164 million commitment to restructuring, the Government is supporting the creation of new jobs in the South-West through relocation of business such as Pinetec, and an increase in the amount of work undertaken locally by furniture manufacturers. Similarly, workers whose skills were related to forest operations that are now less in demand, will have an opportunity for retraining to enable them to work in the manufacturing sector of the timber industry, without having to relocate from the South-West.

The Furniture Industry

Western Australia's furniture manufacturing industry is one of the State's best-kept secrets. Its relatively low profile disguises the fact that it is a significant employer of workers in this State, with an export revenue similar to that of the State's wine industry. It is also a rapidly growing industry with strong demand from domestic, interstate and export markets.

WA is now acknowledged as having the most progressive furniture design and manufacturing industry in Australia, something that was clearly demonstrated in each year's Australian Furnishing Industry Awards, where Western Australian manufacturers have dominated the awards list.

Award winning entries from Just Jarrah, Jahroc and Quedos Billard Tables

In a trade mission to Dubai United Arab Emirates, in 2002, one local manufacturer made a very strong impression in this discerning and high liquidity market with furniture that featured Western Australian native timbers. Similarly, other local manufacturers have already established themselves in the huge United States outdoor furniture market. These successes are not limited to just a handful of manufacturers but are indicative of the capacity that the industry has to compete strongly in the international marketplace. They are also indicative of the capacity of the industry to grow and to rapidly increase employment opportunities in the State's South-West, where job losses have occurred as a result of the reduced availability of jarrah and karri.

Along with flooring and moulded products, the furniture industry will be the predominant user of native timber in the future. In order to maintain its position and improve its competitive edge, the Western Australian furniture industry, with the assistance of the Gallop Government and the Forest Products Commission, has been represented at international furniture expositions in Milan, San Francisco, and Dubai.

Furniture manufacturers and the Government have recognised that our isolation from the centres of design and fashion in furniture is a potential drawback and have funded a chair in design excellence at the University of Western Australia to ensure that in future we will be able to develop our own unique styles within the context of current international market preference. The industry has actively supported this initiative and has demonstrated its capacity to deliver the value-adding stream that is an important component of the Government's vision for the whole industry.

Higher efficiency, using a limited resource better

With the focus of the restructured native forest timber industry shifting to high value added goods, it has also been necessary for the logging and processing sectors to adjust to change. This adjustment begins in the forest and at the sawmill, with added pressure to improve milling yields from higher priced and less available sawlogs and to effectively utilise logs that could not previously be used for sawmilling.

Two of the important changes that have taken place include the adoption of the concept of bole sawlog delivery, which entails the delivery of the whole log to the mill rather than the division of the log in the forest into specified lengths. With the bole sawlog concept it is the miller that makes the decision of how to (or whether to) divide a log prior to the main breakdown saw. This process permits millers to use their skills to maximise the quantity of solid timber within a log. A number of successful applicants for new contracts opted to bid under the bole sawlog provisions.

The Government is keen to continue working with the timber industry to identify ways in which more can be recovered in the logging and milling stages, and to maximise the end use potential of the limited resource.

Integrating timber production with value adding manufacturing

Like the separation between the plantation and native forest sectors, there has long been a clear division between the forestry, milling, and initial processing sectors from the manufacturing component of the industry. This separation will diminish with the restructuring of the industry and the integration of the final manufacturing stages, such as furniture, flooring and moulding, with the earlier production stages.

The Government has indicated support for a consortium of manufacturing sector companies taking a direct ownership position in the contractual access to the jarrah resource and in the early stage processing sector, and also by encouraging formal alliances between companies from both sectors.

Once this process of corporate integration is completed, the industry will be an industry that can proudly show that it is not only using a scarce resource effectively and sustainably, it is also creating the maximum number of long-term jobs from the available resource. It is important that the native timber industry is seen as, and sees itself as, an integrated, seamless supply chain that begins in the forest and ends in the consumer's home or office.

Allocation and Pricing

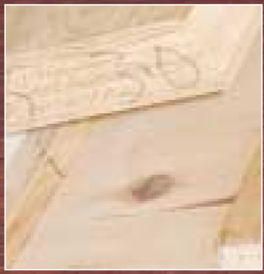
Allocation of sawlog resources from State forests in Western Australia have changed significantly over the past fifty years. Individual companies were originally granted "concessions" to areas of forest for their own supply, but new arrangements during the 1980s led to 10 and 15-year supply contracts, and greater control by the Government over the supplies from each individual operation. Contracts had traditionally "rolled over" from one period to the next, providing stability to investment in the industry and the communities that depended on it.

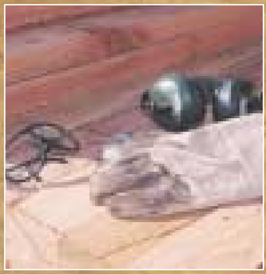
With the scope of restructuring undertaken in 2002, the Government used a competitive process to allocate the greatly reduced quantity of contracts available under the Forest Management Plan 2004-2013. The Request for Proposals for jarrah sawlogs required companies to bid based on a set of pre-determined criteria including the scale of local employment and commitment to local manufacturing, improvements in utilisation of timber, both in the forest and in the sawmill, financial capacity and skills in the business.

The Government has recognised that for companies to invest in the capital equipment needed to implement these changes within the industry, they and their financiers must have confidence in their future financial security and ability to repay that investment. For this reason, the Government has committed to the provision of 20-year financial security guarantees. These guarantees will not bind a future Government to any particular level of timber harvest, but will make it clear to both the industry and the Government what level of financial compensation will be payable should a company be disadvantaged by a future reduction in timber yields.

The last element of industry development is the setting of price for the available logs. In an unrestricted market, prices would be set by auction or tender, but under the Government's forest policy the focus was clearly to create local employment. Log prices have therefore been set at a level that ensures that the Government receives the full cost of growing the resource, plus a profit margin to be delivered as a dividend to the people of Western Australia.

Craftwood and feature grade logs are available in smaller quantities, and often in demand by purchasers in smaller lots. For these grades, a combination of small contracts and auctions of specialty timbers is used to maximise availability to smaller purchasers.





The Plantation Timber Industry

While the responsible utilisation of our native forest timbers is essential to the ongoing development of the furniture and fine wood industries, plantation timbers play an increasing role in meeting the State's timber needs as well as export opportunities.

Presently the two sectors of the State's timber production industry, plantation and native forest, are rarely considered in the same context. They have developed differently, fulfil largely different market needs, have separate ownership and management, and different cultures. While these differences will continue at some level for a period of time, ultimately the two sectors will have more in common than they do now. The integration of the two sectors, around the common denominator of the furniture manufacturing and flooring/moulding industries, is a long-term objective of the Gallop Government.

The tree plantation industry is already much larger in terms of annual volume harvested than the native forest industry, and this will become dramatically more evident over the coming decade. Compared with the combined jarrah/karri cut of around half a million cubic metres, WA's pine plantations supply one million cubic metres of logs for panel manufacture, sawmilling and export, and bluegum plantations supply over one million cubic metres of woodchips, rising to a predicted four or five million cubic metres by 2013.

During 2002, legislation was passed to commit to an agreement for the initial supply of 160,000 cubic metres and up to 250,000 cubic metres per year of maritime pine over one and possibly two periods of 25 years to a single manufacturer of laminated veneer lumber (LVL). This plant will use most of the pine resource that will be removed from the Gnangara Mound in order to increase the recharge into one of Perth's main ground-water supplies.

Other significant developments are also in the planning stage, the expansion of Pinetec's sawmill and its relocation from Perth to Collie, and the development of biomass energy generation from plantation residues. These and other proposals also require certainty of supply over the life of the investment, and the Government has committed to introducing legislation to amend the *Forest Products Act 2000* to allow contracts for plantation timbers to be allocated for periods up to 25 years.

New Tree Farms

While the traditional focus on plantations has been in high rainfall and fertile regions, full attention is now being directed to tree farming in medium to low rainfall areas of the State to fight salinity and waterlogging, reduce greenhouse gases and provide opportunities for rural employment

Since the late 1980s and early 1990s, bluegum tree farms have flourished in the South-West and West Coast regions, now delivering large quantities of resource for high-grade papermaking. In 2002, the Premier launched an action plan for tree farming that promoted integrated planning for a wider range of supply cells with a focus on industry objectives, supply zones, climate and soil characteristics that can maximise benefits to farmers, rural enterprise, communities and the environment. These concepts are now able to be developed further into integrated natural resource management strategies for the various regions of Western Australia as part of our joint action under the National Action Plan for Salinity and Water Quality.

Pursuing the objectives of the action plan, the Forest Products Commission has developed a new brand, Infinitree™, which is the flagship for new investment in tree farming in the lower rainfall zones. Under Infinitree, a mix of private and public investment can be channelled into trees on farms, delivering the range of environmental benefits as well as income to farmers, jobs in regional areas, and opportunities for development of processing industries as the trees mature.

Infinitree incorporates a diverse range of tree farming options suited to the different environments and potential markets. One of the exciting outcomes of the LVL agreement is that supply for the LVL plant in later years will come from plantations that are now being established on degraded farmland in the West Midlands agricultural area west and South-West of Moora. These plantations are already proving their ability to soak up surplus groundwater and combat the spread of salinity. With the agreement now in place, and the passage of three Bills during 2003 to provide a better legislative environment for plantations, the rate of establishment of these maritime pine plantations will accelerate.

In other areas the potential exists to use hardwood and softwood plantation timbers for higher value added end uses. The capacity of plantation timbers to play a role in manufacturing markets will depend on the implementation of management techniques such as early pruning, thinning, longer plantation rotations and the selection of tree species with good sawlog potential, such as Sydney bluegum, sugar gum and spotted gum.

The Gallop Government has encouraged a shift towards sawlog production in the tree plantation industry through Infinitree and the New Eucalypt Sawlog Industry (NESI). This is an agro-forestry program that encourages the combination of widely spaced rows of sawlog quality trees with traditional grazing and cropping agricultural practices in the strips between the trees. This practice not only promotes very rapid tree growth and good agricultural outcomes, but also has a beneficial effect on stream salinity. Initially the program has been aimed at the sensitive Kent, Warren-Tone Rivers and East Collie River catchments, however, there is good potential to extend the program into other salinity affected catchments in agricultural areas.

The plantation sector is immensely diverse and this has brought difficulties in coordinating its development. In an endeavour to assist the industry to unify and focus its direction, and to help Government to better understand its needs and priorities, the Gallop Government has formed a single, industry-wide body, the Plantation Industry Ministerial Advisory Committee (PIMAC). This body is responsible for advising the Minister for Forestry on industry issues and is modelled on the successful Native Forest Products Ministerial Advisory Committee, which plays a vital role in guiding the native forest industry through its process of restructuring.

Plantation processing industry

Associated with both existing plantations (eg bluegums and pines in the South Coast and South-West), and developing plantations under Infinitree, the Government's objective is to maximise local employment and value-adding through industry development.

The Department of Industry and Resources continues to promote the opportunities for development of a pulp mill in Western Australia, and will continue to work with bluegum plantation owners to maximise the opportunities for such an industry to be developed in the State.

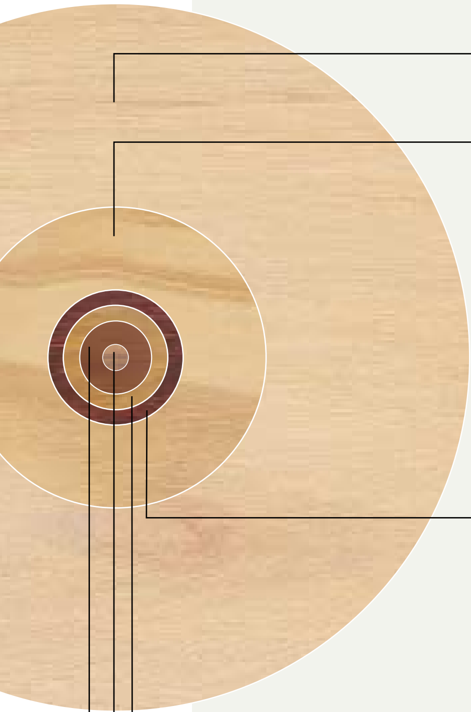
Similarly, the Forest Products Commission will promote the opportunities for industry development associated with species being planted under its Infinitree investments across a range of locations from Moora to Esperance and centres in between.

Conclusion

The process of change and the restructuring of an industry is never a painless one, and the conversion of the Western Australian native timber industry has been no exception. It has been a process involving reconciliation between highly polarised opinions.

The vision that the Government has for the forest industry, in all of its facets, is one that will provide for an exciting and sustainable future, one that will ultimately employ more people than worked in the industry prior to February 2001. It will do this from half the native forest resource that was then available.

WA Timber Industry 2004-2013



ANNUAL LOG INTAKE	USES	INDUSTRY
BLUEGUM 2 million - 4 million m^3	> Pulp and paper	> 5+ chipmills and mobile chippers
PINE Sawlogs 300,000 - 400,000 m^3 Small sawlogs 100,000 m^3	> Structural roof and wall framing pergolas, pallets, treated timber	> 3 sawmills > 3 panel and engineered wood product mills > 4 treatment plants > specialty sawmills**
Laminated veneer lumber 160,000 m^3	> Structural beams, veneers	
Thinnings industrial wood 300,000 m^3 plus sawmill residue	> Particleboard, medium denisty fibreboard, panels for cupboards	
Pine rounds 40,000 m^3	> Fencing	
JARRAH 1st and 2nd grade sawlogs* 131,000 m^3	> Furniture, flooring joinery	> Approx. 15 sawmills and 10 speciality mills > 20 firewood and fencing wholesalers > 1 silicon smelter > 1 chipmill (resources from crown land only)
Other bole logs and low grade sawlogs 100,000 - 200,000 m^3	> Silicon manufacture, activated carbon, firewood - domestic and commercial	
Thinnings 10,000 m^3	> Fencing	
Feature logs, craftwood 100 - 1000 m^3	> Fine furniture, woodcraft	
MARRI 100,000 - 150,000 m^3 sawn timber (10%), woodchips (90%)	> Furniture, flooring, paper	
KARRI 1st and 2nd grade sawlogs 54,000 m^3	> Flooring, structural timbers, furniture (development)	
Thinnings and other bole logs 117,000 m^3	> Paper	
OTHER SPECIES Sawlogs, feature logs 100 - 1000 m^3	> Furniture flooring, woodcraft	

* Bole sawlogs include components of 1st and 2nd grade plus "other bole"

** Eucalypt sawlog products from Infinitree tree farms are expected to contribute to timber industry supplies in the decade 2020-2030.

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