

Contracting for Harvest and Sale of State-owned Forests

Address to:

Contracting in Plantation and Production Forestry

The Millennium Hotel, Sydney

30 September 1998

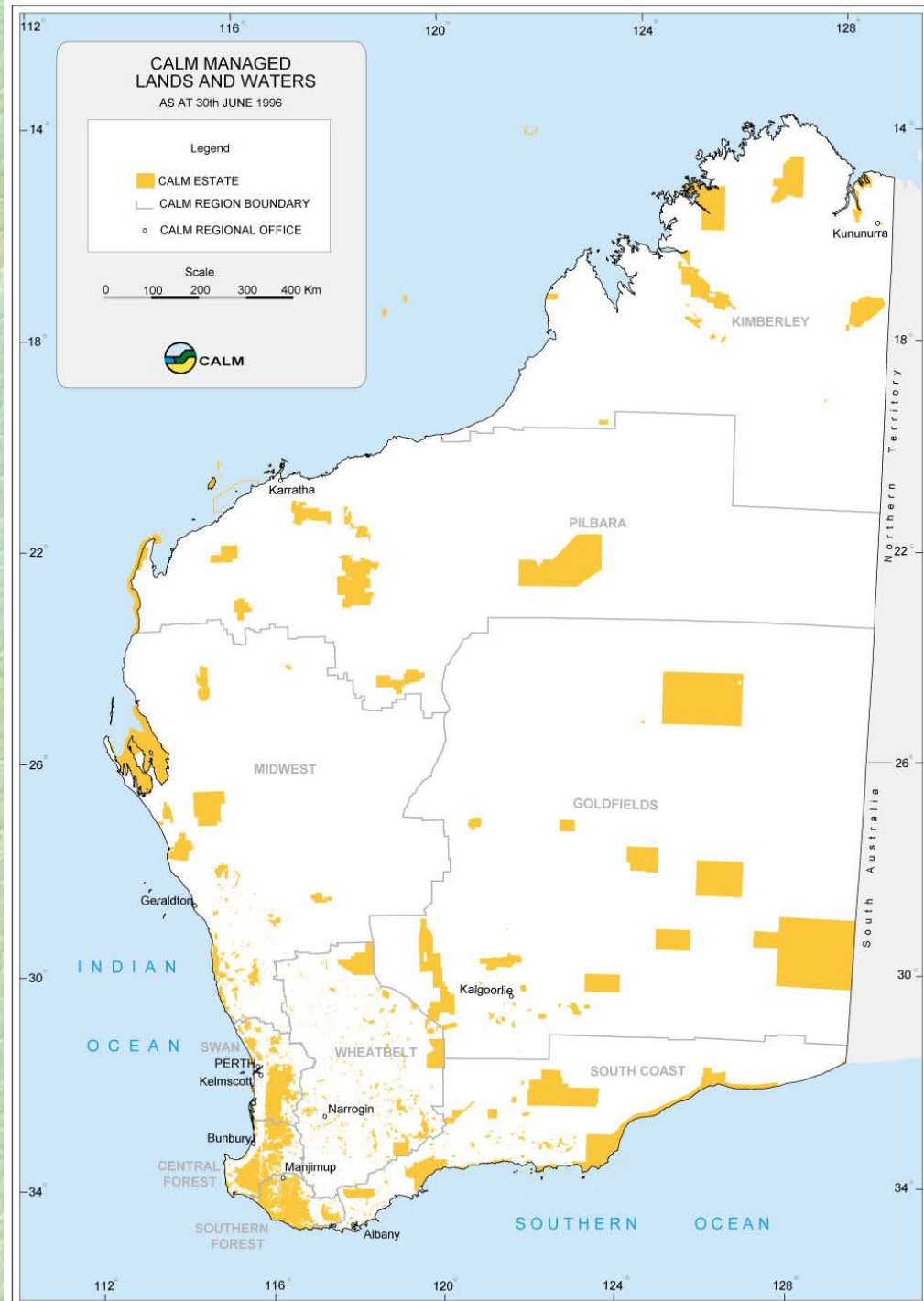
By:

Don Keene

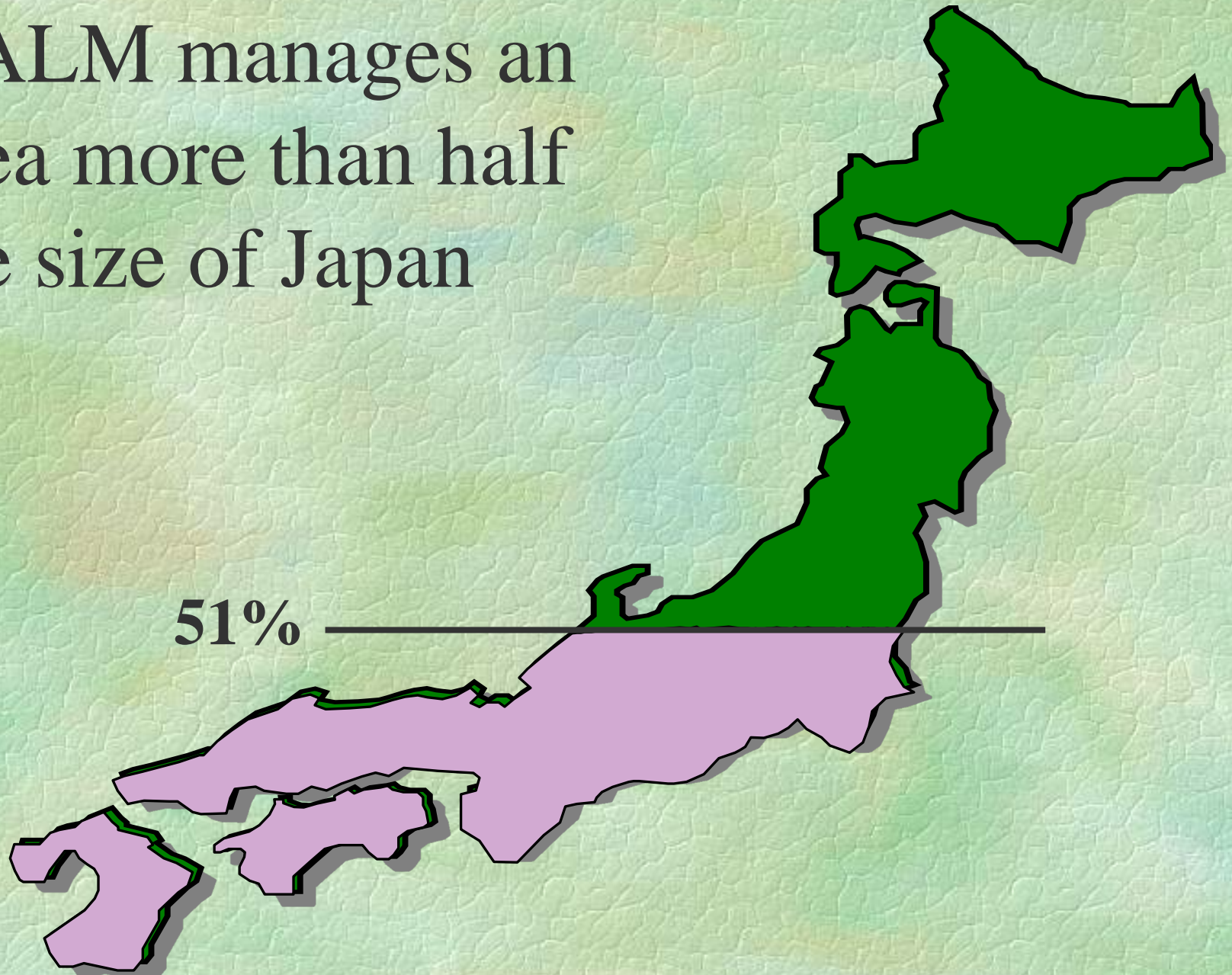
Director of Forests

Department of Conservation and Land Management,
Western Australia

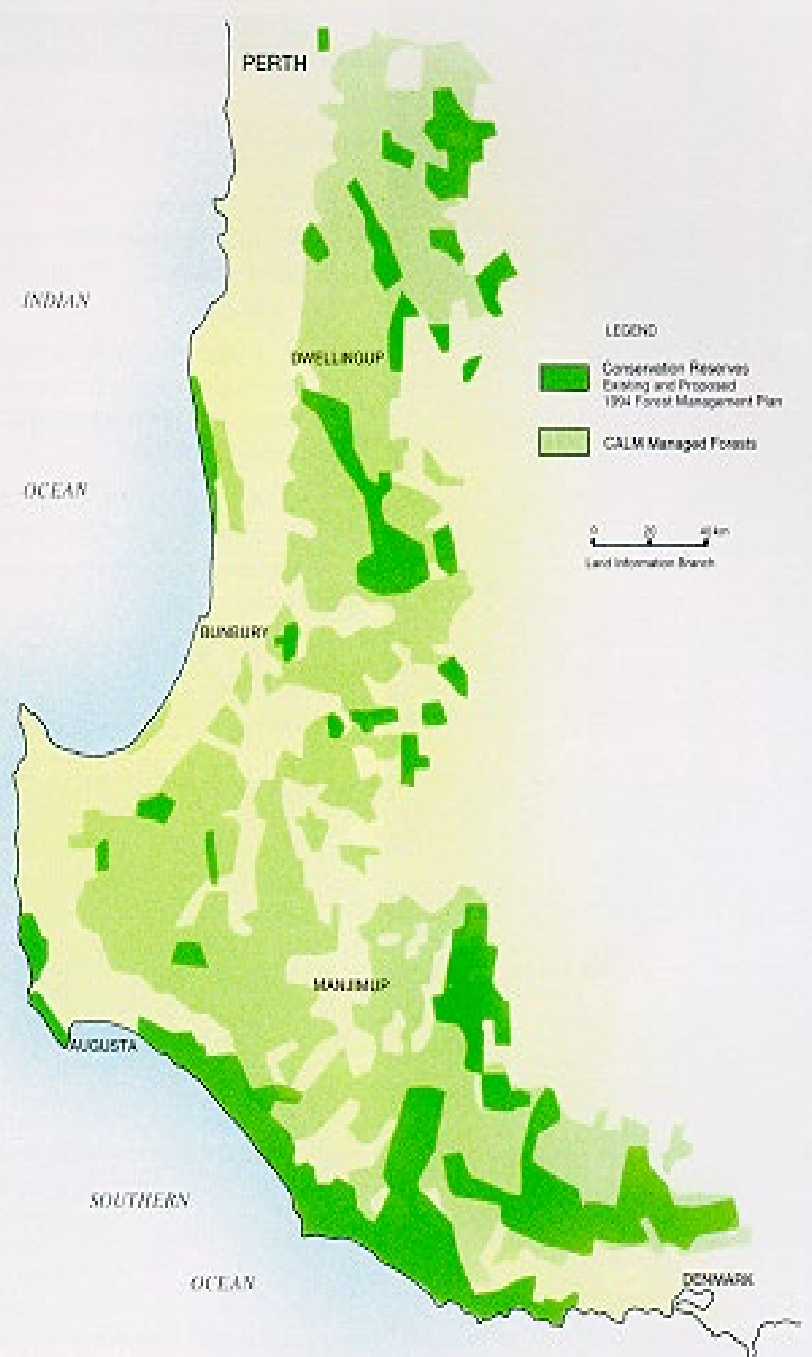
CALM managed lands and waters



CALM manages an area more than half the size of Japan



CALM managed lands in the South-West



Forest Types Managed by CALM

□ Native forest

- Jarrah
- Karri
- Wandoo
- Others

□ Plantations

- Hardwood
 - mainly bluegum
- Softwood
 - radiata and maritime pine





**FOREST
MANAGEMENT PLAN
1994-2003**



Department of Conservation and Land Management



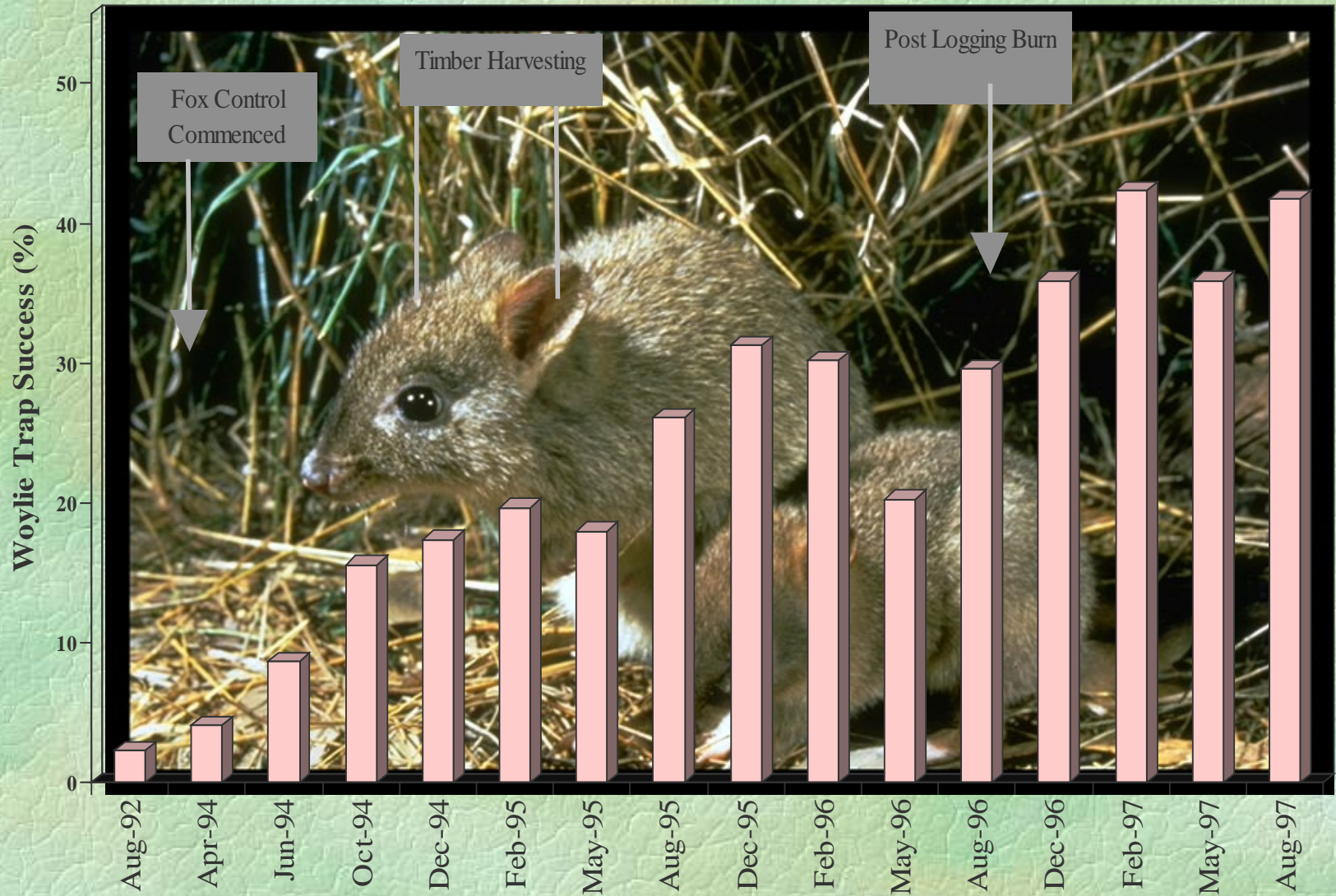






Kingston Timber Harvesting Study

Trap Success Rates For Woylies Along Road Transects













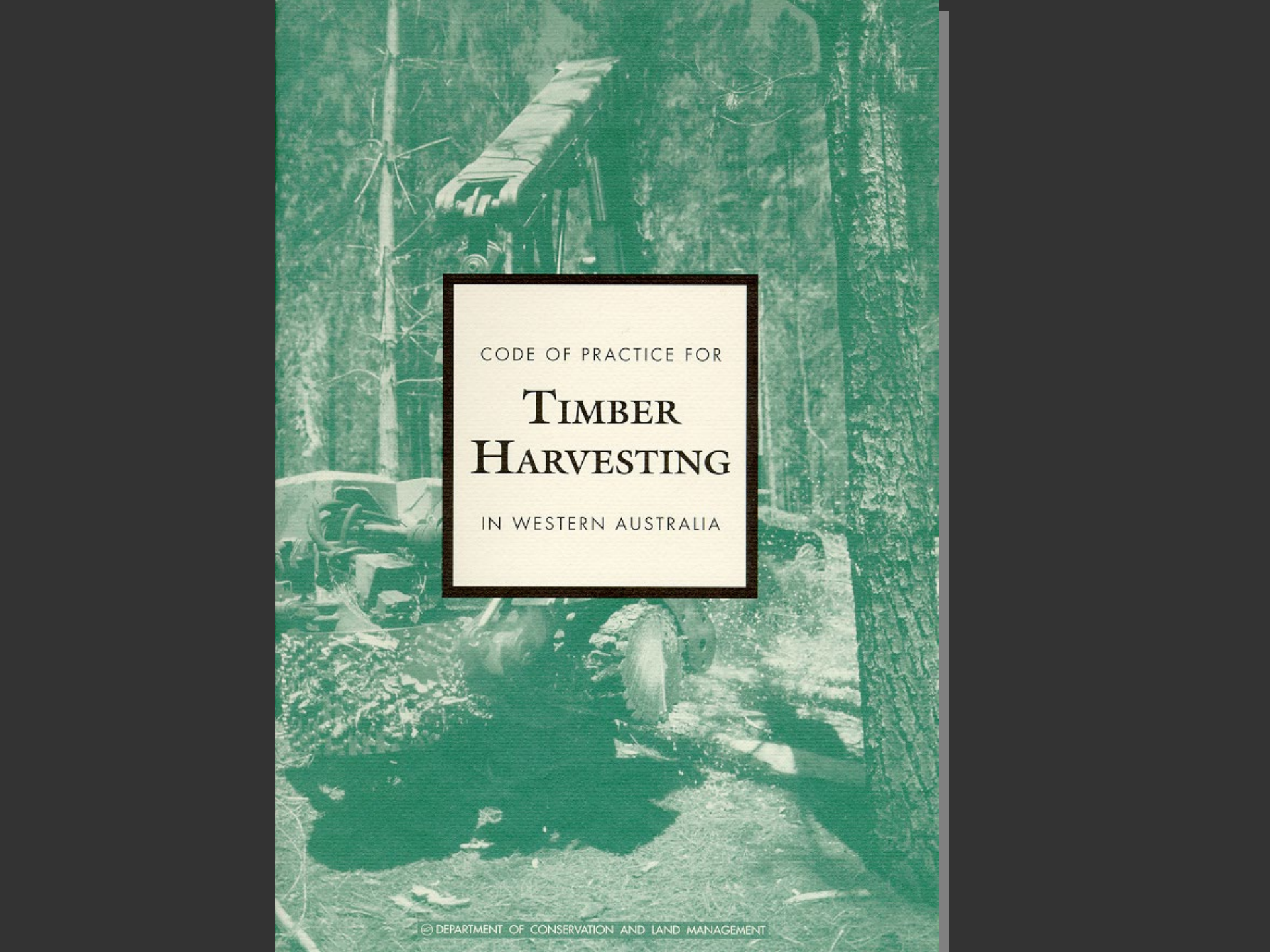


**TIMBER
HARVESTING**
in Western Australia



Department of Conservation and
Land Management

January 1996 Edition

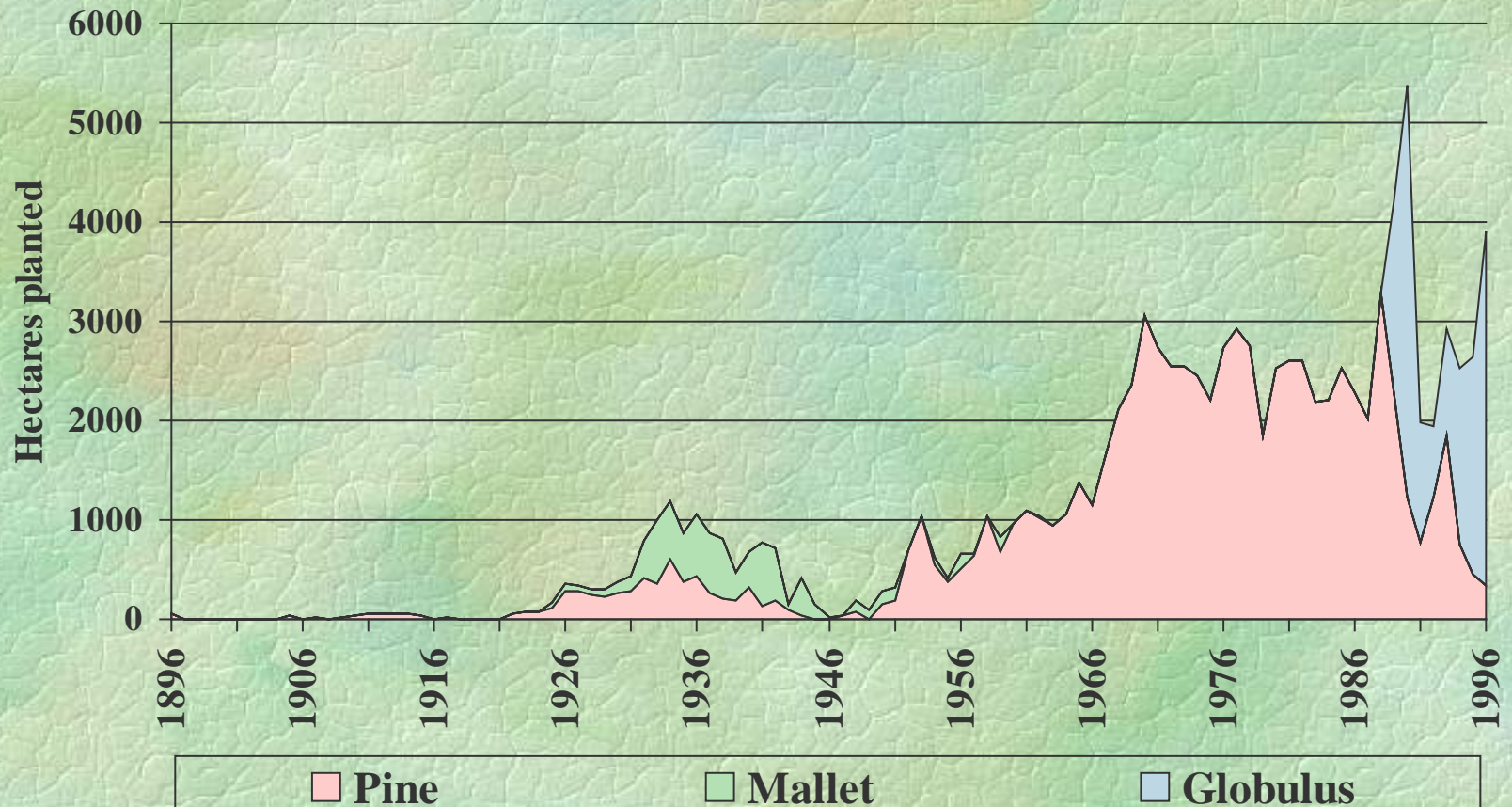
A green-tinted photograph of a logging machine in a forest. The machine is positioned in the center, with its large wheels and mechanical components visible. The background is filled with tall, thin trees, creating a dense forest scene. A central text box with a dark border contains the title and subtitle. The overall image has a monochromatic green color scheme.

CODE OF PRACTICE FOR

TIMBER HARVESTING

IN WESTERN AUSTRALIA

Tree plantings in Western Australia (WAFD/CALM)









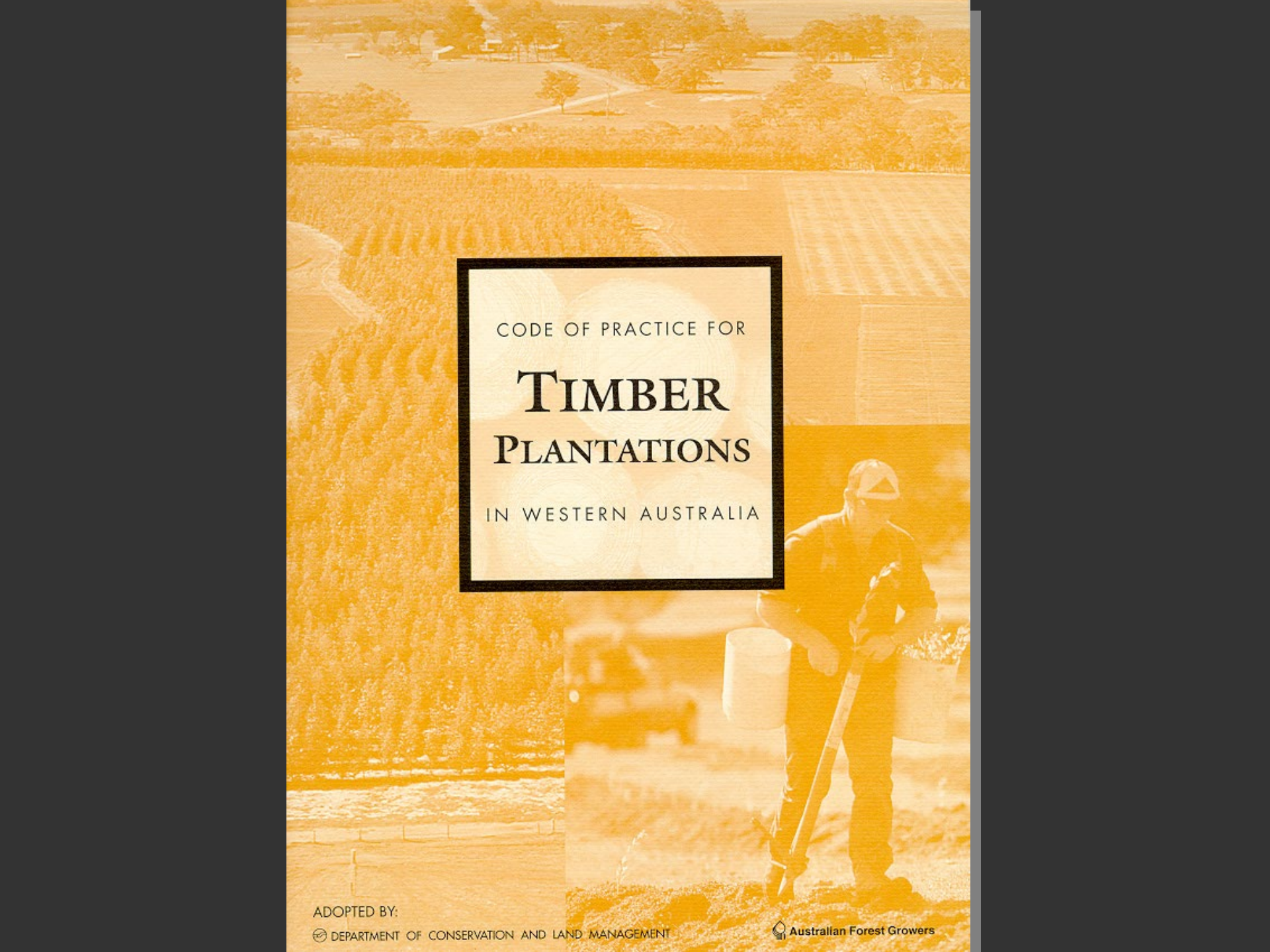
CALM SHAREFARMS

MARITIME PINE

DORMAN PLANTATION PLANTED 1996








CODE OF PRACTICE FOR

TIMBER PLANTATIONS

IN WESTERN AUSTRALIA

ADOPTED BY:

 DEPARTMENT OF CONSERVATION AND LAND MANAGEMENT

 Australian Forest Growers

Forest Harvesting in Western Australia

Introduction

- ❑ System of forest management in Western Australia
- ❑ Not a discussion about benefits of privatisation compared with public ownership of forests
- ❑ System in place in June 1975 for plantations
- ❑ Extended to native forests on 1 January 1990
- ❑ Consultation with contractors and processors through consultation with peak body

Benefits of Forest Owners Engaging Contractors

- More control and easier to supervise
 - one on one supervision
 - greater responsibility on single contractor
 - loyalty to the person who is paying

- Ensures equity between log purchasers, particularly when many log products are being produced concurrently from the same area

- Compare this to when a contractor is working for a sawmill

- Reduces the number of vehicle movements into an area of forest
 - lessens disease risk
 - no arguments between contractors
 - responsibility for roads



JARRAH DIEBACK

You are near a

FOREST DISEASE RISK AREA

Proclaimed in January 1976 to restrict the spread of dieback, the area is subject to

QUARANTINE procedures.

Apart from unrestricted roads, entry by

HORSE OR VEHICLE IS PROHIBITED,

but you are welcome to enter on foot.

Patrol officers may visit this site, and will be pleased to answer your questions.









Benefits of Forest Owners Engaging Contractors

- Ensures maximum utilisation of saleable products from a given area
 - log segregation
 - differential rates for different products

- Benefits to the consumer
 - cheaper, particularly if savings on contractors are passed on
 - obtains logs to a predetermined specification
 - can concentrate on core business
 - timber processing

- Improved safety
 - ensures consistent safety systems are in place throughout industry
 - minimises potential for workers compensation claims

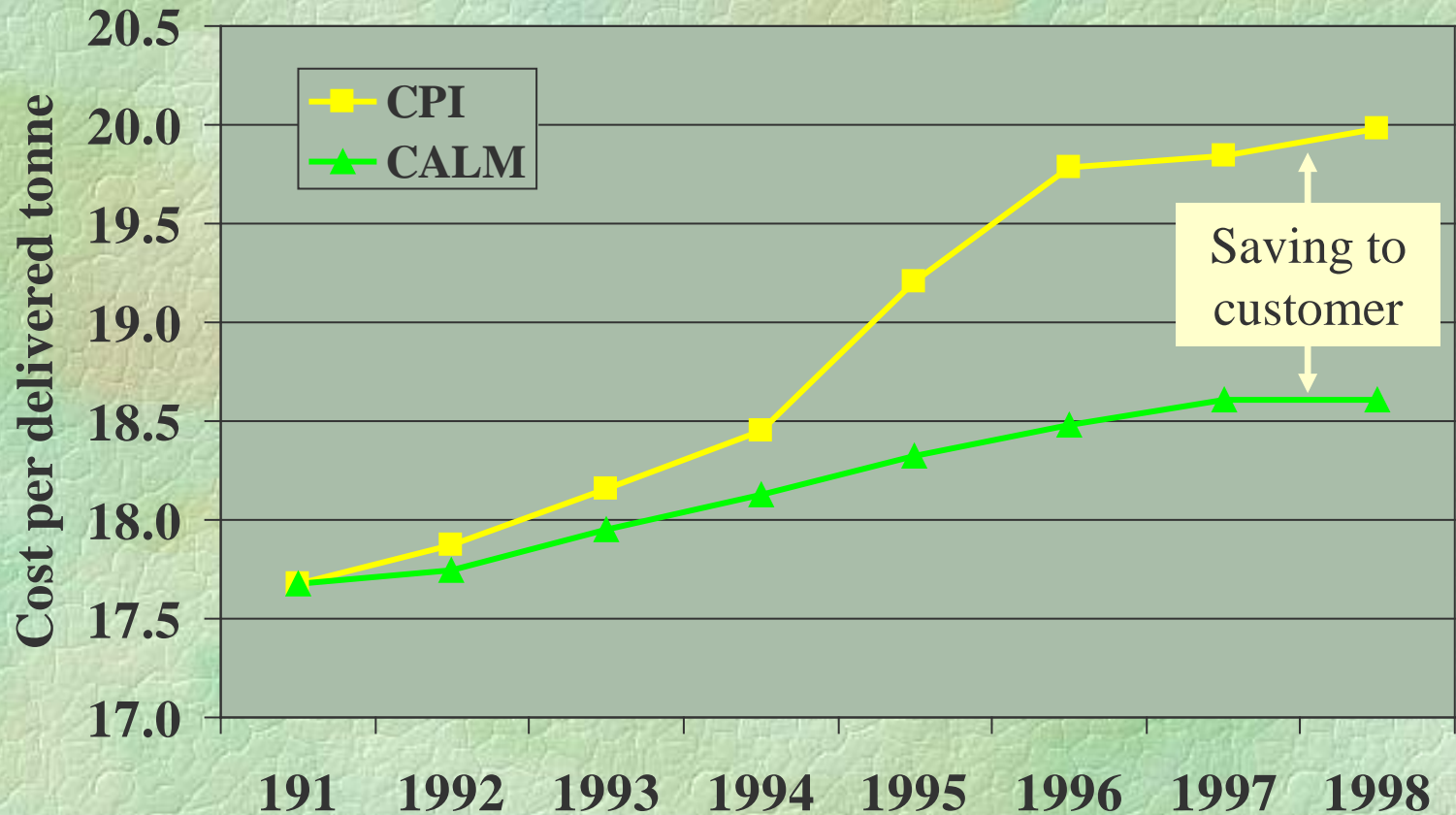
- The next generation





Price Movement

CALM Index vs. CPI



Determination of Timber Royalty

- **Equity between competing interests**
- **Method of setting base royalties**
 - CALM Act
 - Historic permits and licences (private treaty)
 - Royalties included in long term contracts
 - All new resource tendered
- **Balance between security of resource and decisions to invest**
 - opportunity for new players to enter industry
 - balance between large and small projects
 - marginal costing advantage to established companies

Conservation and Land Management Act, 1984

Royalty on forest produce taken

92.(1) Every permit or licence shall be granted or renewed subject to the payment of royalties for all produce taken.

(2) Every contract for the sale of forest produce shall provide for payment of royalties for all forest produce sold.

(3) The royalties payable may be established by public auction or tender.

(4) A permit, licence, or contract of sale may provide for periodic review of royalties during the currency thereof.

(5)(a) Royalty may be assessed on timber standing or in the log.

(b) The contents of timber cut and measured in the log shall be calculated on such system as the Executive Director may from time to time determine.

Indexation of Prices

- Royalties
- Contractors rates

Royalties

- Three components
 - base price, market premium and indexation
- Question - at the stump or in the boat?
- Or cost of growing versus market price?
- If you can't sell it, you shouldn't grow it
 - problem of long term prediction from planting to production
- Tax driven schemes for growing timber
 - rewards for investment capital
 - must ensure underlying financial viability of tree growing
- Meeting competition on price
 - markets to sell wood
 - cheapest growing costs to attract investors in growing trees
 - attracting foreign investment

Base Price

□ Existing resource

- in reality mostly there is already one in place
- often methodology lost in the mists of time

□ New resource

- the existing base price for similar resources often becomes the upset price
- the successful bid then is the base price (for large parcels)

Market Premium

- ❑ CALM recognises higher prices for small parcels
- ❑ Accepts this should be a specific market premium
- ❑ Nevertheless, does form a component of setting future prices
- ❑ A recognition of the ability of the industry to pay

General Review

- At what stage of the business cycle should it occur?
- By negotiation with peak body?
- Large scale projects with owners
- Equity between large and small players
- Reviews by independent experts

Variation of Royalty (short term)

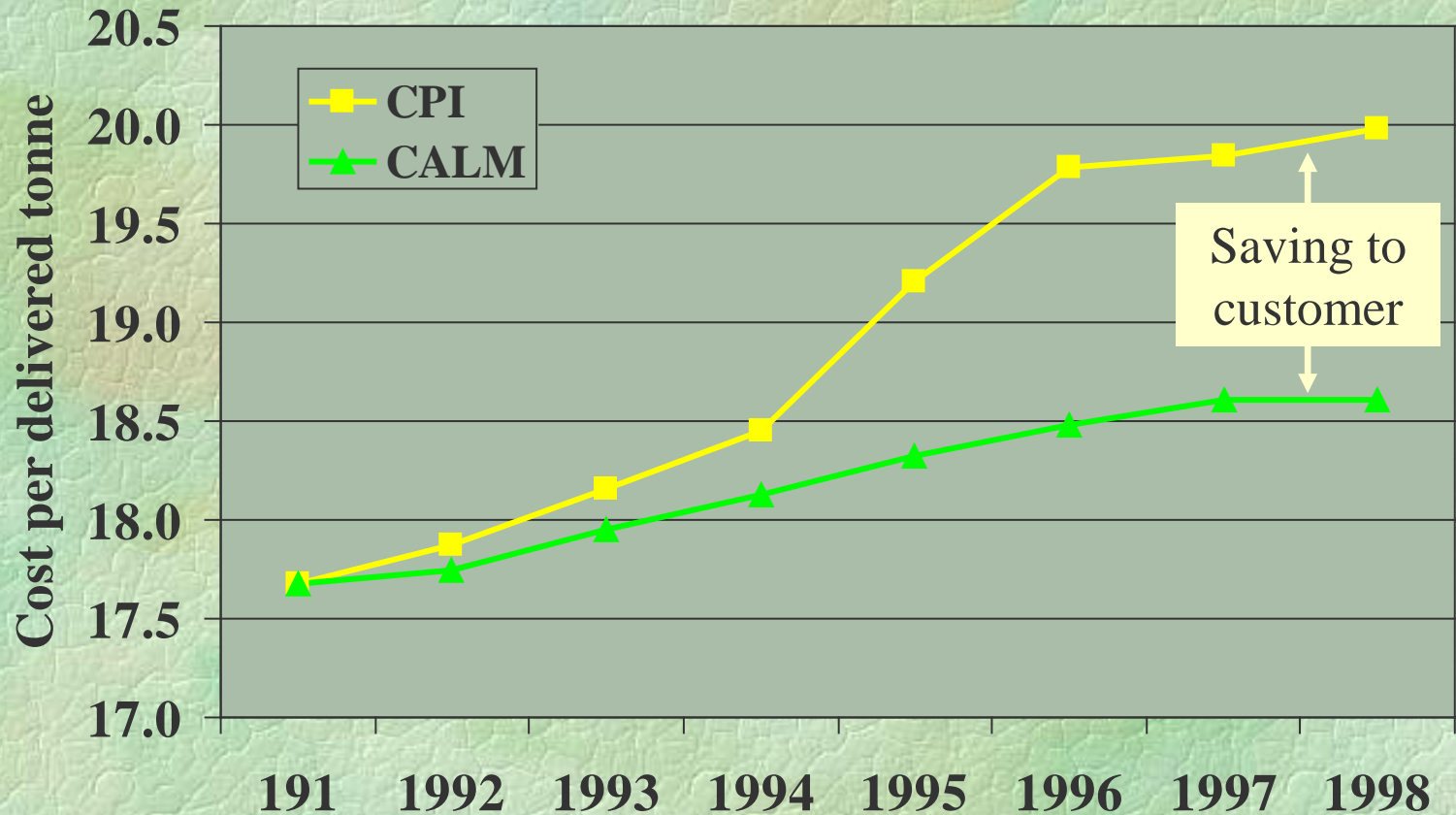
- CPI cost plus insanity (must be tempered in periods of low inflation)
- Market driven indices
 - Timber Price Index produced for CALM and the industry by the Australian Bureau of Statistics
- Must be independent and transparent

Contractors Rates

- **Base rate by tenders**
- **Amortisation period (every 5-8 years)**
- **Indexation clause generally applying to all contracts in an area**
- **Indexation based on price increments of cost components**
 - wages
 - fuel
 - depreciation and leasing costs
- **Allowance for profit**

Price Movement

CALM Index vs. CPI



CALM's Philosophy

- **It is a forest grower primarily and should make its money (return on investment) from this**
- **Must cover all costs associated with harvesting**
- **Should pass on cost savings in harvesting to consumers of wood**
- **Alternative view - if it can get it cheaper, should keep the difference**
- **My view is that CALM should get its 10% once, not twice, otherwise shouldn't be in harvesting**

National Competition Policy and Trade Practices Act

- Need for Governments to comply
- Legislative review / competitive neutrality

The Next Generation

- ❑ **There will be more wood**
- ❑ **But there will be more competition**
- ❑ **Particularly for short rotation timber, processors will own the wood or have long term agreements**
- ❑ **To survive, a grower must be the cheapest or produce the best product**
- ❑ **Improvement in tree genetics**
- ❑ **Timber from native forest will undoubtedly escalate in price**
- ❑ **The push for tougher environmental standards will increase**





All of this means that state forest owners will increasingly employ harvesting contractors who are dedicated, well trained and environmentally conscious who work safely, using specialised equipment in a cost efficient manner.

This will enable state forest owners in Australia to be cost competitive at the same time as managing their forests in an environmentally sustainable manner to international standards.