Forest Industries Association
of Tasmania

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August 12, 2005

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

Dear Sir

RE: Applications for Authorisations A90973 and 90974 lodged by the Tasmanian Forest Contractors Association Ltd

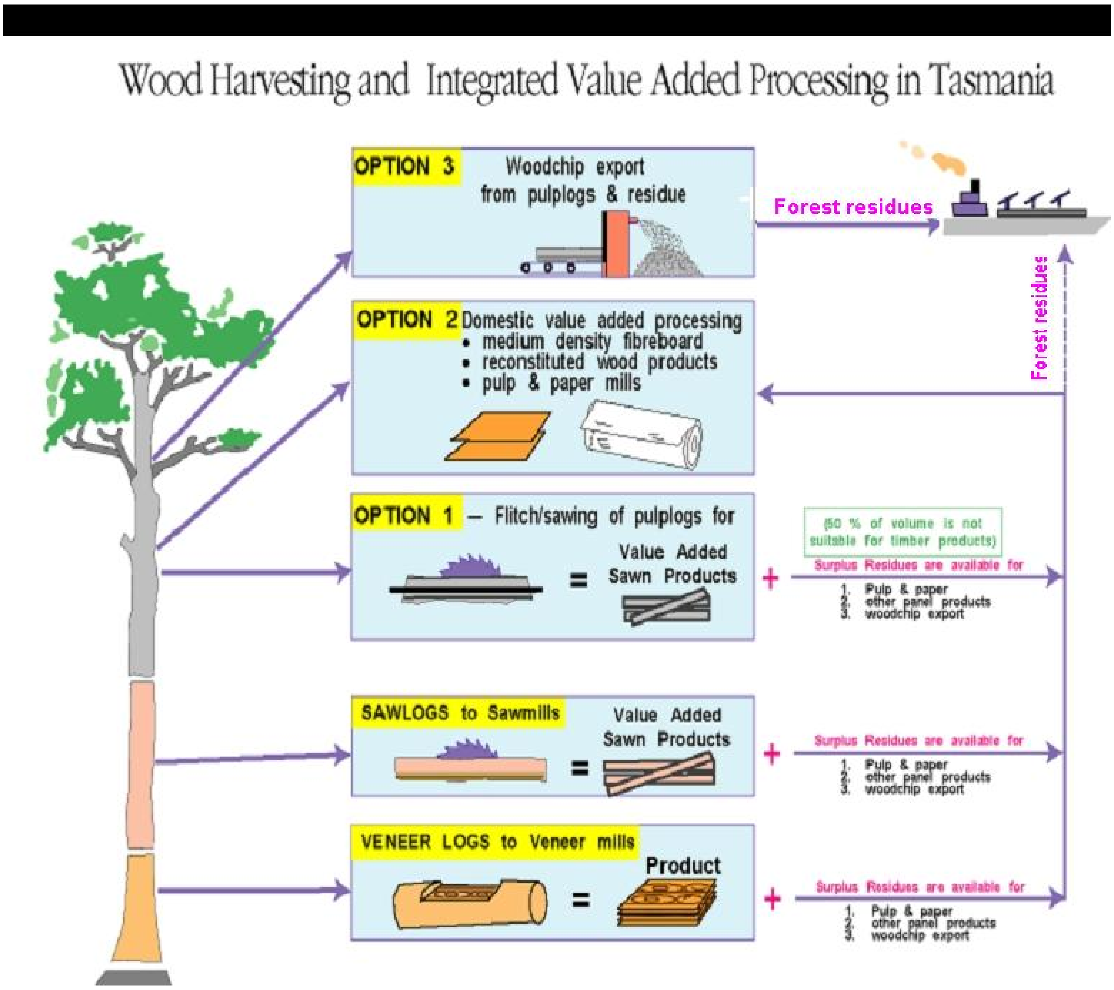
FIAT opposes the authorisations sought by the Tasmanian Forest Contractors Association. Fiat makes this submission, which includes and relies on the accompanying Symetrics report prepared by eminent economists.

The existing Tasmanian forest industry is complex and varied and depends upon a competitive market for the supply of raw materials. We contend that the existing system creates the situation that encourages innovation and continuous improvement, which has allowed costs to be contained. We note that the harvesting, cartage and silvicultural sectors have attracted and continue to attract capital and investors.

FIAT is a company formed in 1983 (previously the Tasmanian Timber Association) to represent the interests of its members who are predominantly processors of forest products. Those processing activities include producing veneers, hardwood and softwood sawing, production of wood panels, manufacture of pulp and paper and the export of woodchips. Our members are also engaged in a diverse range of forest management activities in both native forests and plantations ranging from site preparation, planting, silvicultural management and harvest.

FIAT would like to provide information to the ACCC regarding the industry structure, and the nature of integrated forest products, so as to advance the understanding of its structure and markets. There are different grades and qualities of log within a tree, which is often not evident until the tree has been fallen.

Diagram 1 Different grades of log supply different industry



Manufacturing Industry Structure

The Tasmanian manufacturing industry is complex and economically interdependent. A summary of the major timber processors is as follows;

1. One medium density fibreboard (MDF) mill namely CHH Panels at Bell Bay;

2. Two pulpmills namely Norske Skog at Boyer, Australian Paper at Wesley Vale;

3. Four softwood saw/veneer mills namely Auspine, Frenchpine, Gunns Veneer, and Wynwood;

4. 52 hardwood saw/veneer mills (owned by 43 companies Appendix 1);

5. One timber preservative treatment plant namely Koppers at Longford;

6. Five woodchip export facilities being Artec at Bell Bay, Tasmanian Fibre at Bell Bay and Gunns Ltd with mills at Burnie, Tamar and Triabunna;

7. Three Forestry Tasmania hardwood export peeler log facilities located at Burnie Wharf, Bell Bay Wharf and Hobart Wharf;

8. One export pine log facility at Burnie; and

9. A large number of very small independent regional sawmills.

Most of the wood supply for these processors is arranged through the five major forest companies listed in the TFCA action.

How and why major forest companies coordinate supply to most other manufacturing companies

Two fundamental underlying elements in the wood supply structure are that:

- Industries have been regionally located to best suit their commercial outlook resulting in industries being widely dispersed throughout Tasmania; and
- It is necessary to sort logs into categories mainly in the forest based on quality, grade and destination, to minimise transport cost.

Other key aspects associated with the supply of logs to manufacturing companies are;

1. The landowner and manufacturing company(ies) enter into a contract for supply of forest products of a specific quality, volume and region or area of forest;

2. A principal forest company together with the landowner schedule a defined area of forest (coupe) for harvesting;

3. The principal forest companies engage a harvesting contractor to undertake the harvesting and supply. The agreement may be for harvesting and cartage or may contract the harvesting and cartage separately;

4. The principal forest company, the landowner and the harvesting contractor prepare and agree a Forest Practices Plan. This plan outlines details regarding how the harvesting will be conducted;

5. The harvesting contractor is advised the production rate and destination for the full range of log products, some of the destinations may only represent a small portion of the contractors volume;

6. The harvesting contractor under contract with a principal forest company is expected to supply the log products in a regular, timely manner in accordance with the contract;

7. Harvesting contractors may conduct all of the contracted activities or subcontract components such as falling;

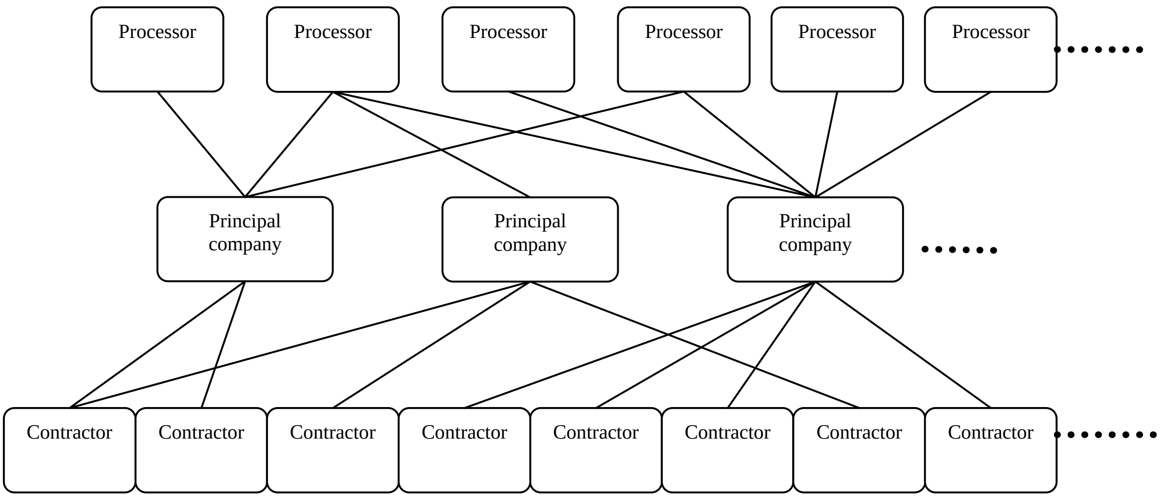
8. The principal forest company and landowner schedules harvesting to meet supply requirements of the manufacturing companies;

9. The principal forest company pays the harvesting and cartage contractor as per their contract.

Definitions

Principal forest companies – a large firm that engages staff with skills to prepare and supervise forest practices plans and operation, develop and manage supply contracts with requirements to skill and safety of operation and the supply of logs to a variety of grade and quality to different destinations. Principal forest companies may or may not be engaged in manufacturing.
Landowner – those who can legally authorise forest operations on either public or private land.
Harvesting contractor – a firm that is contracted to undertake the harvest and/or cartage.

Diagram 2 - Processors rely on a complex matrix to obtain sufficient quantity of an agreed supply from one or more principle forest companies and their contracted harvesting contractors.



The above schematic diagram the existing structure whereby a processor may receive logs from several principal forest companies who in turn may have engaged several harvesting contractors.

In Tasmania there are more than 50 independent timber processors that receive logs from the 5 principal forest companies listed in the TFCA action. Should the existing system be changed so that harvesting and cartage contractors could engage in collective bargaining that lead to a boycott, such a boycott would inevitably stop supplies to a number processing firms not directly involved in the dispute. It would cause considerable consequential damage.

There are a number of country sawmills that engage forest contractors directly and those mills are not named as respondents in the TFCA action.

Silvicultural Operations

Plantations are very important to the long-term viability of the forest industry. Most of the silvicultural activities conducted by silvicultural contractors are associated with establishment and growing of hardwood or softwood plantations. Activities include land clearing, cultivation, planting, fertilizer application, weed control and in some cases pruning and thinning. These activities are closely aligned with agriculture and are often referred to tree farming.

Many of these contractors carry out work for the farming sector such as land clearing or aerial spraying. Unlike the harvesting and cartage operations of supply, the arrangements between principal forest companies and their contractor vary.

The activities are to a large degree dependant upon the ground conditions and the climate as many agricultural activities are seasonal.

Most of the funding of plantation activities comes from private sector investment and if silvicultural costs climb the attractiveness of plantations as an investment, will decrease resulting in less establishment carried out in the short-term and in the long-term less resource for industry.

There is a gap of 15 to 30 years between establishment and harvest of plantations thus the consequential effects of cost and productivity are delayed. However it is still none the less vital that silvicultural operations are extremely cost effective or the processing industries will be ultimately faced with unacceptably high wood supply costs and become uncompetitive.

Tasmanian forest industry is characterised as a price taker in the market

Tasmanian forest industry sells into very competitive markets with most of the product exported to either to mainland or overseas. For many products such as MDF, newsprint and woodchips, international pricing is applied and Tasmanian firms are price takers. Tasmanian firms must match competitors price and quality or lose sales. Sales price has been decreasing in real terms in recent years and margins are slim.

Innovation and Increased Productivity

The current system of tendering creates an incentive for harvesting and cartage contractors to be come more efficient by way of innovative work practice or more effective equipment. Such a system allows forest and harvesting contractors to maintain profitability whilst decreasing cost. For example in recent years there has been considerable improvements in transport efficiency, regulation now allows a variety of axle and trailer configurations in addition to the original tandem axle semis. These new combinations have greatly increased allowable gross vehicle mass (refer Appendix 2) and trucks have become lighter and more fuel-efficient.

A system based on collective bargaining would see the emphasis change so that harvesting and cartage contractors would seek to lock in capital structures and work methods as a means of justifying increased rates with no incentive for improvement. It will have further serious adverse economic implications as illustrated by the Symetrics report.

Conclusion

FIAT is extremely concerned that should silvicultural, harvesting and cartage contractors be given the right to engage in collective bargaining and should that bargaining be unsuccessful and include the right to boycott, such actions would be seriously detrimental to the viability of many of the forest processing companies and consequently seriously injure the public interest.

Yours truly,

Terry Edwards
Chief Executive