

MEDIA RELEASE

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New system to ensure timber industry future

Victoria's commercial forestry supplier, VicForests, today announced a new system for the future sale of sawlogs to the timber industry.

VicForests CEO Dr David Pollard said the new system represents significant changes to the timber industry that will:

- Secure jobs, communities and investment in those areas of regional Victoria that rely on the timber industry, by providing greater certainty of supply and encouraging higher value use of the State's resource with a requirement that it be processed locally;
- Provide existing licence holders with a transition period during which a new market-based allocation system for sawlogs will be phased in;
- Ensure the future of the industry by reducing the currently over-allocated amount of timber back to sustainable levels;
- Improve levels of safety and environmental performance.

VicForests is a Government Business Enterprise responsible for the sustainable harvest and sale of the State's native forest timber. The new pricing and allocation model will deliver on the State Government's 2002 policy commitment in *Our Forests Our Future* that:

- VicForests would be established as an independent fully commercial entity to sell sawlogs on a transparently commercial basis; and
- there be a transition period for existing operators to a new market-based sawlog pricing and allocation system.

Dr Pollard said the new market-based pricing and allocation model would be phased in over 10 years through a series of new five-year contracts issued to existing operators from the date of expiry of their licences.

"This transition period will mean sawmills operating under the old licence system will have security over the supply of sawlog for some time to come, with an additional five years on top of their existing licence period," he said.

"During this time they will be able to bid for additional sawlog supply through the new competitive pricing and allocation system, which will offer a range of contracts for the supply of sawlog."

VicForests has been consulting with stakeholders to refine the model over the past five months. The first round of auctions is expected to be undertaken in the second half of 2005, once industry has had the opportunity to become comfortable with the new auction system.

"Independent, economic impact analysis undertaken by VicForests suggests that in the long term, a market based system will improve returns to Victorian taxpayers."

For further information or interview, contact Teena Cardillo, Tel: 9608 9531 or 0400 545 593.

Background information follows.

BACKGROUND INFORMATION

1. What is VicForests?

VicForests was established by the Victorian State Government as an independent, fully commercial entity responsible for the sustainable harvest and sale of the State's native forest resource. It is governed by an independent commercial Board of Directors.

2. Why is a new open and competitive log sales market required?

- To distribute timber in a way which will ensure sustainable industry investment in value adding.
- To ensure a fair return to the Victorian taxpayer for timber sales by establishing market-based prices.
- To ensure fair competition with plantations.

3. Key features

New administered five year contracts for sawlogs

- Issue a new administered contract for 5 years to each licence holder from the expiry of their current licence.
- Contracts will have annual reductions in sawlog quantity from 2005/2006 of 17% to facilitate the phased-in implementation of an open market. The timber type (eg species, grade and location) will be based on past licence entitlements but better match future availability.
- New contracts will encourage sawlogs to be processed locally.

Reduced sawlog supply over five years

- A 10% reduction in overall sawlog supply to match sustainable yield over the next five years.

Open market auctions of future timber supply from 2005/2006

- Commence auctions of forward timber supply contracts of up to 10 years through an electronic simultaneous auction in 2005/2006.
- Preclude the companies and directors, who received complete Voluntary Licence Reduction Program packages, and were intended to entirely exit the industry, from bidding for two years from the commencement of auctions.
- Contracts to encourage buyers to process sawlog timber locally and improve levels of workplace safety and environmental performance.

4. Expected impacts

The proposed model offers a smooth ten-year transition with sufficient time for industry adjustment from existing closed markets (licences) to open markets (auctions) and from the existing excess sawmilling capacity (at least 1,000,000 m³/annum) to a better fit with future resource availability (estimated at around 650,000m³/annum).

The available annual quantity of sawlog timber (around 650,000 cubic metres per annum) will be put to the open market progressively to ensure that the necessary industry adjustment from current excess capacity occurs as smoothly as possible. The proposed sawlog resource allocation over the next 15 years is indicatively as follows:

- 24% held under secure licences, which expire progressively up to 30 June 2010.
- 18% has been offered in five year transitional contracts; and
- 58% not held under licence or five-year contract will be allocated through a new Pricing and Allocation Model (PAM).

Sufficient timber is available from Vicforests and other sources (eg from plantations, interstate and private property) to allow sawmills to continue operating at current level of activity for some time.