AUSTRALIAN Forests&Timber NEWS
AUSTRALIA'S LEADING TIMBER PUBLICATION
SEPTEMBER 2012 Issue 6, Vol. 21 • P: (03) 9888 4834 • F: (03) 9888 4840 • E: lmartin@forestsandtimber.com.au • www.timberbiz.com.au

Pulp fiction, pulp facts

By Rosemary Ann Ogilvie

SEVEN YEARS and $250m of planning and preliminary work have come to nothing with the announcement by Gunns Limited on August 6 that its proposed $2.3bn Bell Bay pulp mill could no longer be listed as 'probable to succeed'. The news darkened the heavy clouds hanging over Tasmania's forestry industry, as most players believe the mill would be the industry's saviour.

Since bankers granted Gunns an 11-month reprieve in January, the company has attempted to recapitalise, while concurrently seeking a joint-venture partner and a financier for the mill. Existing institutional investors proved unresponsive, while interest from New Zealand-based investment company Richard Chandler Corporation rapidly cooled after examining Gunns financials.

Gunns' latest report reveals unencumbered assets are no longer of sufficient value to allow a joint venture to proceed. Its measure of nett tangible assets is now negative, sliding from $750m in the previous report, while debt sits at more than $500m.

Global projects

Analyses by various industry experts appearing in the media this year have hinted that perhaps the mill's demise may not be a bad thing. One major concern is the massive new global pulp mill projects – notably Eldorado and Suzano Maranhao in Brazil, Montes del Plata in Uruguay and Oji in China – that will pump four million tonnes of pulp into the world market, potentially creating a glut in the bleached hardwood kraft (BHK) pulp market within a year or so – the market Gunns would join.

Eldorado's 31 trains and 447 rail cars will transport 1.5m tonnes of pulp each year to the company's port on Brazil's southeast coast. Labour costs are lower in China and South America. There are predictions of falling pulp prices.

Could the Bell Bay mill be viable in such an environment?

Robert Eastment, director, IndustryEdge - Tasmanian-based company that's been providing market intelligence on the pulp and paper industry throughout Australasia for 25 years – firmly believes the project remains a viable one. "Global pulp prices always have been very volatile," he points out, addressing the last concern first. "A decade or more ago, the change in pulp prices was fairly slow through the cycle – more like an ocean roller, a long way up and a long way down. These days, pulp prices are far more volatile, whereby they can move through a whole cycle in maybe just three or four months."

This shift can be attributed to China's involvement in the market as a major pulp trader. "The Chinese purchase on a very different rationale," Eastment explains. "In the western world – Europe, North America and Australia – the normal way of buying pulp is through long-term contracts and forward pricing. You're committed for a number of years, therefore movement is fairly slow and gradual."

China, on the other hand, buys on the market: it doesn't go in for very long-term contracts. "When prices are rising, China buys before prices go up further. So suddenly prices will move up very quickly. Conversely, when prices are beginning to come down, China steps out of the market as it waits for prices to drop further – and they do, because this major market player has stopped buying. So the cycles now are more volatile over much shorter periods, and people who are relatively new to or inexperienced in the pulp market find it difficult to predict a price."

The massive capital expenditure involved in creating a world-scale pulp mill makes pulp one of the most expensive forms of manufacturing, Eastment continues. "For this reason, you need to look at it through cycles over 30 years or more: what they're likely to be and where they're going. Issues driving the pulp prices will certainly relate to supply and demand for market pulp." (See sidebar on page4.)

Market pulp, which is the Gunns model, is pulp that is made and on sold to paper manufacturers. With the other type, integrated pulp, the pulp is made and converted into paper in the same factory.

In 2000, of the total global pulp production of 184 million tonnes, 25 per cent was market pulp. In

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Robert Eastment.

Flashback to the early days of Gunns bid to build a pulp mill at Bell Bay.

Campbell Group acquires SA Government's forestry assets

THE CAMPBELL Group, LLC (TCG) has entered into definitive agreements to acquire the forward rotations of the South Australian Government's forestry plantation estate in the Green Triangle. TCG is acquiring the forward rotations on behalf of a consortium of institutional investors, including Australia's Future Fund.

John Gilleland, President and Chairman of TCG, said: "TCG has been seeking quality timberland assets in this part of the world for some time. We are very pleased to have entered into agreements to acquire these plantation assets, which we consider to be the preeminent softwood resource in Australia.

"TCG and its clients are disciplined investors with long term investment horizons. We are very confident in the long term viability and continued success of the Green Triangle timber industry."

TCG is fully committed to the Green Triangle forest products industry and will seek to build and maintain strong relationships with local customers, suppliers and other industry participants.

TCG acknowledges and is committed to the Treasurer's Publicly Stated Conditions, including providing future supply to domestic customers, maintaining target rotation length and complying with replanting obligations. Under TCG's direction, this valuable forestry estate will continue to be managed on a sustainable and commercial basis.

"We recognise and value the high quality management team and staff at ForestrySA, who will continue to manage the plantations and very much look forward to working with them," added Gilleland.

TCG is advised by Freehills and Gresham Advisory Partners.

Australian Forests & Timber News
AUSTRALIA'S LEADING TIMBER PUBLICATION
ISSN 1444-5824
September 2012

Tests open door to future transport. Read more on page 18.

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One-year (8 editions) $55
Two-years (16 editions) $95
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International expansion: projects over A$50M

CO2 GROUP has signed a joint venture agreement with Asia Energy Development Partners Pte Ltd (AEDP), a Singapore-based carbon and renewable energy specialist, to establish CO2 Asia Pte Ltd. This new company will specialise in the development and commercialisation of projects under the Clean Development Mechanism (CDM) of the Kyoto Protocol.

The joint venture company (60% owned by CO2 Group and 40% owned by AEDP) has secured a number of major contracts that will generate approximately 15 million Certified Emission Reduction Units (CERs) over a 21-year period. These CERs are currently valued at more than A$50 million. In addition, the company has a strong pipeline of future prospects.

"This is a very important step in the continued growth of our company," said Andrew Grant, chief executive officer of CO2 Group, who will also be the chairman of CO2 Asia. "The creation of this joint venture provides us with international diversification, strong revenue growth and access to new and emerging markets in Europe and South East Asia. Most importantly, it will help us support our current clients to meet their compliance needs in Australia and New Zealand."

The joint venture will draw on AEDP's expertise in working in carbon markets across South East Asia and brings strong in-country commercial and government relationships.

CO2 Asia's contracted and pipeline CDM projects are located in Vietnam and India and the carbon credits generated from these projects can be traded under the European Union's Emissions Trading Scheme, the Australian Carbon Scheme and the New Zealand Emissions Trading Scheme (as all projects are pre-December 2012).

David Tow has been appointed managing director of CO2 Asia. Tow has more than 20 years' experience in energy and infrastructure and an extensive track record of successful delivery of renewable energy projects. He previously led Perenia Pty Ltd and was an Asia-based Executive Director with Snowy Mountains Engineering Corporation.

"This expansion into Asia is part of CO2 Group's strategy to leverage our strong carbon technical skills and commercial knowledge into emerging markets. This announcement builds on the Company's successful expansion into New Zealand and will ensure that CO2 Group's revenue base is broad, diversified and continues to grow," Grant said.

BRIEFLY...

Seedlings by the thousands for schools

Forestry Tasmania donated and distributed almost 7,000 tree seedlings to schools and community groups in support of National Tree Day celebrations. Coordinated by Planet Ark, Schools Tree Day is designed to give around 200,000 students across Australia an opportunity to plant seedlings in their school grounds. Forestry Tasmania's Nursery and Seed Centre has given away more than 50,000 seedlings to schools and community groups during its involvement over the past six years. The range of species grown this year included plants from a variety of environments so that suitable types were available for milder coastal areas through to the colder central regions of Tasmania.

The Forest Products Fairness Act

The Forest Products Fairness Act of 2012 will offer producers stronger, expanded product markets, so that the industry can better compete in the global marketplace, according to U.S. Reps. Glenn Thompson and Kurt Schrader. This modification is a win-win for consumers and producers, along with the promotion of healthy, well-managed forests, and the protection of communities that rely on these jobs and industries to survive.

Pulp fiction, pulp facts

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2010, 32 per cent of the global pulp production of 185 million tonnes was market pulp. However, production actually peaked in 2006-7 at 197 million tonnes. "This was just before the GFC, which as we know led to greatly reduced economic activity and fewer people working. Consequently there was a lower demand for paper; fewer magazines; less marketing material; and less office paper," says Eastment. "So production has actually fallen from 197 million tonnes back to 186 million tonnes, while the supply of market pulp compared to integrated pulp has risen."

He stresses that he is talking in extremely general terms about all types of pulp: sulphate (kraft), sulphite (photographic and brochures), bi-sulphite (tissue), mechanical pulp (newsprint), solid kraft (bags and boxes).

Production costs

Regarding the new world-scale pulp mills, Eastment says they produce cheaper pulp – primarily market – and are also replacing hundreds of smaller pulp mills that are very, very expensive and highly polluting.

"Moreover, pulp mills in the USA are closing," says Eastment. "While some pulp wood is cut from plantations and native forests, about 70 per cent of pulp wood supply is out of sawmills.

With the collapse of the housing industry, housing construction has essentially ceased, which has resulted in hundreds of sawmills going out of business. So there's no sawmill residue to feed the mills." Pulp production in the USA declined from 57 million tonnes in 2000, to 49 million tonnes in 2010.

Addressing the issue of the labour cost differential, Eastment says that while Australia's labour costs are higher, so is the productivity of our workforce.

"One of our major disadvantages is that our cabotage – getting freight on and off ships – is possibly the most expensive in the western world, but fortunately we're not going through Melbourne or Sydney ports," says Eastment. "On the positive side, we have a shorter steaming route to major markets as we don't have to cross the entire Pacific." The average steaming days for woodchip or pulp to Asia or China is about 15 days, from Chile it's about 30 days, and from South Africa 25 days.

And while Eldorado's port and rail infrastructure may give it a competitive edge in South America, says Eastment, such infrastructure is not needed in Tasmania. "Gunns takes the pulp out of the driers, into a warehouse and onto a ship. We don't need a railway coming out of the port onto the ship.

"So certainly, there are definite advantages in the unit costs of labour and production in South America," says Eastment. "However, it doesn't mean we're out of the ball park as we certainly have some advantages of our own."

We can only hope this is recognised and that the project is revived.

Pulp supply and demand

One aspect of supply and demand that needs to be addressed is the rapid adoption of tablets and their impact on print media.

"Electronic publications are having a major impact, especially in mechanical pulp (newsprint)," says Eastment. "More people are reading their daily news on their tablets in bed with their cup of coffee. In Australia alone last year, the volume of newspaper printed fell by 10 per cent. We're actually a little behind the rest of the world in the decline, because we're a nation that reads a lot of newspapers. So this is the most significant impact of the changing technology."

However, Eastment stresses that mechanical pulp is very different from the kraft pulp Gunn's will make. Mechanical pulp is basically produced by grinding the tree, whereas the manufacture of kraft pulp involves removing the lignan and separating the wood into cellulose fibres. This pulp is used to make white office paper – and also goes into magazines.

"There is certainly a decline both in the consumption in office papers, and in magazine readership," says Eastment. "Traditionally, the major consumers of magazines are females aged 17 to 30. Today, the discretionary disposable expenditure of this demographic is more likely to be on mobile phones. These people tend to be texting rather than reading a magazine when they're waiting at the hairdresser."

Gunns pulp could also be used for books, also a declining market in the western world. Balancing this is countries such as China, India and Vietnam whose very sizable and increasingly literate populations are seeking more access to books and magazines. This trend should continue for some time, although it will peak in different places at different times.

"While there may be some increasing demand from these regions, the downside is that there will be much greater pricing pressures than if the demands were rising in Europe or North America," Eastment comments. "The decline in European economic conditions has resulted in a sharp reduction in consumption."

One of the major suppliers to European markets is China, and it's feeling the impact of the loss of this key export market, and the North America market, as a consequence of the economic challenges they're experiencing.

"Declining economic conditions in Europe and North America will lead to reduced demand for packaging and paper in China, which in turn will impact the Chinese economy. "

The warnings are there, says Eastment. "We read in the financial press on a daily basis that things are cooling very rapidly in China, and in a few years time their demand for our resources may be nowhere near the current volume."