



# Australian Pine Log Price Index

Updated to December 2004

ADVISORY



Australian Pine Log Price  
Index  
Updated to December 2004

Audit & Risk Advisory Services  
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***Disclaimer***

The information contained in the Australian Pine Log Price Index is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The Australian Pine Log Price Index has been prepared as outlined in Sections 1 and 4 of this report. The procedures outlined in Section 4 constitute neither an audit nor a comprehensive review of operations.

The findings in this report are based on data provided by Queensland DPI Forestry, State Forests NSW, ACT Forests, Hancock Victorian Plantations and Forestry SA (the Grower Organisations). Any projection to the wider softwood industry is subject to the level of bias in the method of sample selection.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Grower Organisations consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

## **1 About the Pine Log Index**

The Australian Pine Log Price Index (the Index) is compiled by KPMG using data provided by Australian softwood growers. It documents changes in pine log prices achieved by large-scale commercial plantation owners selling common grades of plantation softwood logs to domestic processors, relative to the Index base period of January to June 1998.

The Index is updated on a biannual basis. The two reporting periods are January to June and July to December.

The growers that contribute information to the Index are:

- Queensland DPI Forestry
- State Forests NSW
- ACT Forests
- Hancock Victorian Plantations
- Forestry SA

The organisations listed above are major entities involved in the growing and management of softwood plantations in southern and eastern Australia.

At the end of each reporting period, organisations provide commercial-in-confidence data to the independent Index manager, KPMG. This information includes log volumes and stumpage values for all sales, including long and short-term contracts and spot transactions. Quantity information on export sawlog and export pulpwood is also provided.

This report updates the Australian Pine Log Price Index for the period July to December 2004.

## 2 Growers and regions covered

The Australian Pine Log Price Index represents a number of major softwood plantation growers in southern and eastern Australia. Each of the contributors to the Index, and the regions they report on, are listed below:

*Table One: Index contributors by region*

<i>Region</i>	<i>State/Territory</i>	<i>Grower organisation</i>
ACT	Australian Capital Territory	ACT Forests
Bathurst Tumut	New South Wales	State Forests NSW
SE Queensland	Queensland	Queensland DPI Forestry
Lofty Ranges Green Triangle Mid North	South Australia	Forestry SA
Ballarat La Trobe Victoria NE Victoria SW	Victoria	Hancock Victorian Plantations

## 3 Australian Pine Long Price Index

### 3.1 Summary

The table below summarises the Index data for the periods January 1995 through to December 2004. The Index is calculated on weighted average prices using the period January to June 1998 as a base of 100.

Six of the seven indices have increased since the last report, with the remaining index recording no change. The indices that recorded the greatest increases during the period were salvage, preservation and small sawlog. The intermediate sawlog index recorded no change during the period.

*Table Two: Summary of Index data*

Australian Pine Log Index									
	Domestic							Export	
	Small sawlog	Intermed. Sawlog	Medium sawlog	Large sawlog	Preservation	Pulplog	Salvage Log	Sawlog	Pulplog
<b>Jan 95 – Jun 95</b>									
<b>Index</b>	<b>99</b>	<b>103</b>	<b>98</b>	<b>96</b>	<b>80</b>	<b>105</b>	<b>68</b>		
Maximum \$	\$38.97	\$62.78	\$87.13	\$107.99	\$18.00	\$13.23	\$31.23		
Minimum \$	\$17.90	\$33.34	\$39.05	\$41.50	\$12.25	\$8.69	\$8.21		
Weighted Av. \$	\$32.00	\$45.38	\$60.29	\$68.82	\$14.90	\$11.05	\$12.28		
Volume (m <sup>3</sup> )	539,820	491,287	426,860	245,444	87,786	1,029,715	83,306	0	0
<b>Jul 95 – Dec 95</b>									
<b>Index</b>	<b>105</b>	<b>111</b>	<b>105</b>	<b>102</b>	<b>85</b>	<b>97</b>	<b>95</b>		
Maximum \$	\$39.82	\$64.14	\$89.03	\$110.34	\$19.10	\$13.22	\$19.17		
Minimum \$	\$18.63	\$31.00	\$45.43	\$49.02	\$6.47	\$8.32	\$14.86		
Weighted Av. \$	\$33.85	\$48.99	\$64.78	\$73.66	\$15.93	\$10.29	\$17.17		
Volume (m <sup>3</sup> )	518,031	499,672	408,556	172,701	97,552	929,294	80,878	310	0
<b>Jan 96 – Jun 96</b>									
<b>Index</b>	<b>117</b>	<b>117</b>	<b>106</b>	<b>104</b>	<b>85</b>	<b>97</b>	<b>91</b>		
Maximum \$	\$41.59	\$66.99	\$92.99	\$115.25	\$19.10	\$13.19	\$25.43		
Minimum \$	\$19.28	\$31.77	\$40.86	\$44.16	\$10.42	\$8.86	\$12.39		
Weighted Av. \$	\$37.63	\$51.39	\$65.01	\$74.51	\$15.84	\$10.28	\$16.42		
Volume (m <sup>3</sup> )	420,835	376,646	285,579	149,021	99,017	629,134	65,115	4,214	0
<b>Jul 96 – Dec 96</b>									
<b>Index</b>	<b>116</b>	<b>116</b>	<b>105</b>	<b>103</b>	<b>85</b>	<b>91</b>	<b>113</b>		
Maximum \$	\$40.81	\$65.74	\$91.25	\$113.09	\$19.10	\$14.05	\$23.90		
Minimum \$	\$18.70	\$29.74	\$43.34	\$40.40	\$10.10	\$8.48	\$17.33		
Weighted Av. \$	\$37.39	\$50.91	\$64.72	\$74.31	\$15.85	\$9.64	\$20.38		
Volume (m <sup>3</sup> )	418,278	413,774	300,362	131,561	108,782	702,164	52,379	1,644	0

Table Two: Summary of Index data (continued)

Australian Pine Log Index									
	Domestic							Export	
	Small sawlog	Intermed. sawlog	Medium sawlog	Large sawlog	Preservation	Pulplog	Salvage Log	Sawlog	Pulplog
<b>Jan 97 - Jun 97</b>									
<b>Index</b>	<b>114</b>	<b>110</b>	<b>102</b>	<b>101</b>	<b>90</b>	<b>98</b>	<b>112</b>		
Maximum \$	\$40.50	\$65.25	\$90.56	\$112.24	\$19.10	\$12.87	\$30.00		
Minimum \$	\$20.08	\$31.45	\$41.37	\$41.40	\$11.00	\$9.35	\$12.64		
Weighted Av. \$	\$36.63	\$48.49	\$62.68	\$72.81	\$16.74	\$10.31	\$20.18		
Volume (m <sup>3</sup> )	454,341	464,445	356,338	186,134	84,886	739,490	65,500	13,637	0
<b>Jul 97 - Dec 97</b>									
<b>Index</b>	<b>107</b>	<b>101</b>	<b>96</b>	<b>97</b>	<b>94</b>	<b>104</b>	<b>99</b>		
Maximum \$	\$40.33	\$64.97	\$90.17	\$111.76	\$19.10	\$14.16	\$21.22		
Minimum \$	\$15.30	\$30.28	\$44.22	\$34.39	\$11.00	\$9.74	\$16.11		
Weighted Av. \$	\$34.39	\$44.65	\$59.27	\$69.61	\$17.53	\$11.00	\$17.84		
Volume (m <sup>3</sup> )	503,256	601,333	570,163	229,229	107,220	1,037,717	61,044	67,087	9,604
<b>Jan 98 - Jun 98</b>									
<b>Index</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>		
Maximum \$	\$39.05	\$62.90	\$87.30	\$108.20	\$23.22	\$13.94	\$20.17		
Minimum \$	\$14.24	\$30.82	\$44.52	\$44.34	\$10.70	\$6.84	\$11.46		
Weighted Av. \$	\$32.23	\$44.04	\$61.43	\$71.99	\$18.70	\$10.56	\$18.03		
Volume (m <sup>3</sup> )	583,020	774,139	593,667	235,106	141,732	991,222	98,023	13,654	5,211
<b>Jul 98 - Dec 98</b>									
<b>Index</b>	<b>104</b>	<b>104</b>	<b>105</b>	<b>105</b>	<b>110</b>	<b>99</b>	<b>120</b>		
Maximum \$	\$40.06	\$64.53	\$89.57	\$111.02	\$23.98	\$14.42	\$25.05		
Minimum \$	\$15.40	\$32.99	\$47.61	\$50.94	\$10.13	\$8.35	\$9.22		
Weighted Av. \$	\$33.44	\$45.74	\$64.43	\$75.90	\$20.56	\$10.50	\$21.62		
Volume (m <sup>3</sup> )	554,479	653,511	534,534	205,003	126,514	900,351	100,626	46,667	49,467
<b>Jan 99 - Jun 99</b>									
<b>Index</b>	<b>98</b>	<b>98</b>	<b>102</b>	<b>103</b>	<b>107</b>	<b>98</b>	<b>117</b>		
Maximum \$	\$38.93	\$62.71	\$87.04	\$107.88	\$23.54	\$11.89	\$23.91		
Minimum \$	\$15.93	\$33.84	\$49.98	\$53.45	\$11.49	\$9.70	\$8.55		
Weighted Av. \$	\$31.57	\$43.09	\$62.52	\$74.07	\$19.98	\$10.35	\$21.05		
Volume (m <sup>3</sup> )	585,762	747,543	506,988	182,088	104,970	983,519	109,748	93,874	53,533
<b>Jul 99 - Dec 99*</b>									
<b>Index</b>	<b>104</b>	<b>100</b>	<b>104</b>	<b>106</b>	<b>109</b>	<b>96</b>	<b>111</b>		
Maximum \$	\$41.07	\$66.16	\$91.83	\$113.81	\$23.69	\$12.79	\$22.37		
Minimum \$	\$13.21	\$21.60	\$51.00	\$54.51	\$5.31	\$9.32	\$9.05		
Weighted Av. \$	\$33.37	\$44.05	\$63.89	\$76.41	\$20.44	\$10.18	\$19.94		
Volume (m <sup>3</sup> )	627,440	742,113	531,393	179,685	97,967	922,547	98,493	87,257	87,673
<b>Jan 00 - Jun 00</b>									
<b>Index</b>	<b>102</b>	<b>101</b>	<b>106</b>	<b>107</b>	<b>111</b>	<b>92</b>	<b>133</b>		
Maximum \$	\$40.58	\$65.37	\$90.74	\$112.46	\$23.70	\$12.78	\$27.18		
Minimum \$	\$15.56	\$27.58	\$45.07	\$52.18	\$7.51	\$7.56	\$4.90		
Weighted Av. \$	\$32.72	\$44.27	\$64.89	\$76.90	\$20.76	\$9.67	\$23.90		
Volume (m <sup>3</sup> )	721,424	852,867	526,865	184,175	73,950	893,305	119,697	103,523	295,425

**Table Two: Summary of Index data (continued)**

Australian Pine Log Index									
	Domestic							Export	
	Small sawlog	Intermed. sawlog	Medium sawlog	Large sawlog	Preservation	Pulplog	Salvage Log	Sawlog	Pulplog
<b>Jul 00 - Dec 00</b>									
<b>Index</b>	<b>105</b>	<b>102</b>	<b>109</b>	<b>110</b>	<b>106</b>	<b>89</b>	<b>122</b>		
Maximum \$	\$44.79	\$65.23	\$90.54	\$112.21	\$23.59	\$13.07	\$24.68		
Minimum \$	\$6.43	\$17.52	\$35.40	\$43.08	\$13.15	\$7.75	\$8.46		
Weighted Av. \$	\$34.01	\$44.87	\$66.68	\$78.87	\$19.88	\$9.40	\$22.00		
Volume (m <sup>3</sup> )	610,915	797,206	464,843	166,482	89,325	1,093,219	94,779	108,668	276,380
<b>Jan 01 – Jun 01</b>									
<b>Index</b>	<b>106</b>	<b>101</b>	<b>107</b>	<b>107</b>	<b>105</b>	<b>87</b>	<b>118</b>		
Maximum \$	\$49.98	\$63.64	\$88.33	\$109.48	\$21.97	\$14.39	\$22.46		
Minimum \$	\$7.74	\$20.31	\$39.74	\$47.49	\$12.50	\$7.73	\$18.00		
Weighted Av. \$	\$34.09	\$44.32	\$65.58	\$77.33	\$19.62	\$9.16	\$21.25		
Volume (m <sup>3</sup> )	536,808	692,999	431,982	143,172	107,888	2,089,265	79,706	131,563	212,673
<b>Jul 01 – Dec 01</b>									
<b>Index</b>	<b>104</b>	<b>103</b>	<b>103</b>	<b>105</b>	<b>98</b>	<b>90</b>	<b>129</b>		
Maximum \$	\$43.69	\$62.11	\$86.21	\$106.84	\$23.95	\$17.24	\$26.57		
Minimum \$	\$14.67	\$28.30	\$44.17	\$52.05	\$12.42	\$4.00	\$5.95		
Weighted Av. \$	\$33.41	\$45.46	\$63.23	\$75.30	\$18.42	\$9.49	\$23.29		
Volume (m <sup>3</sup> )	624,998	783,031	539,480	172,391	130,089	1,157,145	94,293	116,933	140,172
<b>Jan 02 – Jun 02**</b>									
<b>Index</b>	<b>104</b>	<b>104</b>	<b>105</b>	<b>107</b>	<b>100</b>	<b>93</b>	<b>128</b>		
Maximum \$	\$46.00	\$64.80	\$89.94	\$111.47	\$25.14	\$15.91	\$25.55		
Minimum \$	\$13.73	\$27.34	\$46.23	\$52.26	\$10.64	\$2.00	\$5.32		
Weighted Av. \$	\$33.59	\$45.64	\$64.39	\$77.22	\$18.66	\$9.87	\$23.05		
Volume (m <sup>3</sup> )	672,316	831,701	562,747	202,348	116,744	1,073,838	85,132	105,761	173,406
<b>Jul 02 – Dec 02</b>									
<b>Index</b>	<b>106</b>	<b>106</b>	<b>108</b>	<b>107</b>	<b>110</b>	<b>89</b>	<b>133</b>		
Maximum \$	\$39.59	\$63.77	\$88.51	\$109.70	\$22.91	\$21.30	\$26.62		
Minimum \$	\$17.49	\$29.65	\$44.60	\$50.91	\$11.30	\$2.00	\$14.44		
Weighted Av. \$	\$34.01	\$46.59	\$66.30	\$77.25	\$20.67	\$9.42	\$24.06		
Volume (m <sup>3</sup> )	703,066	837,983	561,885	206,852	128,504	1,058,889	95,513	141,762	227,675
<b>Jan 03 – Jun 03</b>									
<b>Index</b>	<b>105</b>	<b>108</b>	<b>106</b>	<b>106</b>	<b>108</b>	<b>95</b>	<b>135</b>		
Maximum \$	\$40.48	\$65.21	\$90.51	\$112.17	\$24.17	\$15.87	\$28.55		
Minimum \$	\$14.87	\$27.04	\$42.84	\$51.22	\$12.61	\$2.30	\$15.25		
Weighted Av. \$	\$33.70	\$47.53	\$65.35	\$76.22	\$20.24	\$10.00	\$24.39		
Volume (m <sup>3</sup> )	799,140	789,657	576,361	208,486	119,162	1,014,614	194,832	74,667	261,567

\* The period July to December 1999 includes only four months data from one grower.

\*\* Data for the period January to June 2002 has been revised following the submission, in January 2003, of adjusted data by one of the grower organisations.

**Table Two: Summary of Index data (continued)**

<b>Australian Pine Log Index</b>									
	<b>Domestic</b>							<b>Export</b>	
	<i>Small sawlog</i>	<i>Intermed. sawlog</i>	<i>Medium sawlog</i>	<i>Large sawlog</i>	<i>Preservation</i>	<i>Pulplog</i>	<i>Salvage Log</i>	<i>Sawlog</i>	<i>Pulplog</i>
<b>Jul 03 – Dec 03***</b>									
<b>Index</b>	<b>107</b>	<b>107</b>	<b>106</b>	<b>109</b>	<b>106</b>	<b>95</b>	<b>124</b>		
Maximum \$	\$40.79	\$65.71	\$91.21	\$113.05	\$28.57	\$19.14	\$27.86		
Minimum \$	\$7.24	\$13.74	\$39.05	\$52.54	\$10.64	\$0.85	\$15.86		
Weighted Av. \$	\$34.41	\$47.19	\$65.39	\$78.51	\$19.85	\$10.07	\$22.35		
Volume (m <sup>3</sup> )	832,277	848,771	616,815	207,087	138,296	1,293,950	111,481	81,008	75,274
<b>Jan 04 – Jun 04</b>									
<b>Index</b>	<b>102</b>	<b>105</b>	<b>105</b>	<b>108</b>	<b>112</b>	<b>85</b>	<b>104</b>		
Maximum \$	\$40.54	\$65.30	\$90.63	\$112.33	\$26.78	\$17.34	\$24.40		
Minimum \$	\$10.25	\$15.07	\$37.11	\$54.31	\$13.88	\$1.48	\$4.68		
Weighted Av. \$	\$32.95	\$46.14	\$64.33	\$77.65	\$20.99	\$8.93	\$18.82		
Volume (m <sup>3</sup> )	777,454	893,925	565,526	198,364	100,574	1,228,894	117,328	83,423	117,642
<b>Jul 04 – Dec 04</b>									
<b>Index</b>	<b>107</b>	<b>105</b>	<b>109</b>	<b>109</b>	<b>118</b>	<b>90</b>	<b>143</b>		
Maximum \$	\$41.24	\$66.43	\$92.20	\$114.27	\$28.20	\$16.89	\$27.54		
Minimum \$	\$14.52	\$21.59	\$41.36	\$54.84	\$11.64	\$2.27	\$8.17		
Weighted Av. \$	\$34.60	\$46.32	\$67.06	\$78.82	\$22.13	\$9.47	\$25.80		
Volume (m <sup>3</sup> )	794,231	977,152	600,946	187,271	128,262	1,183,999	62,300	28,497	50,461

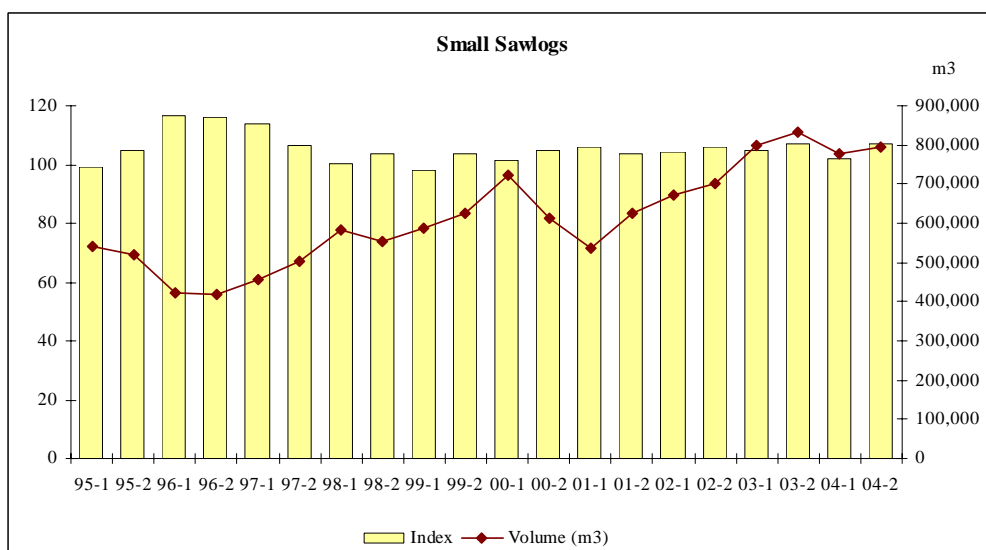
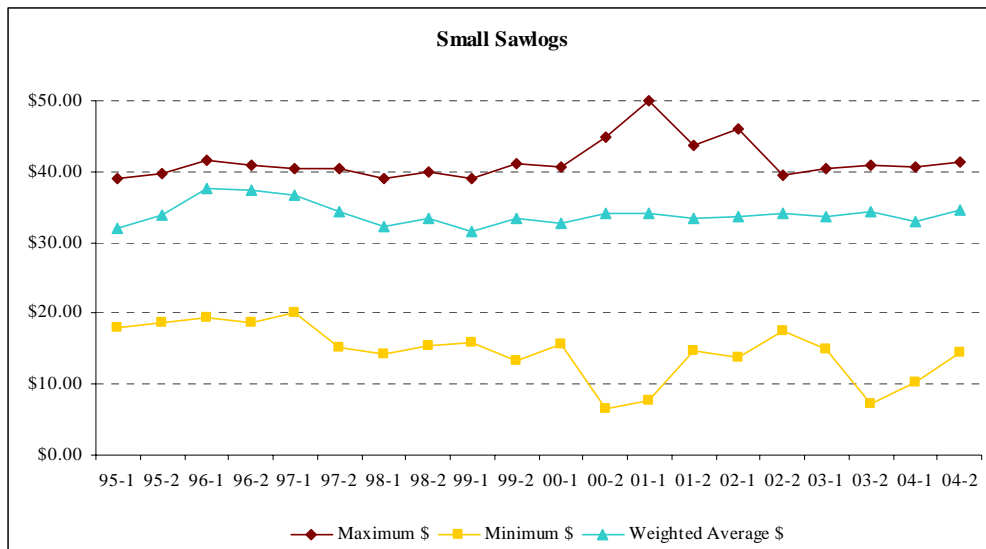
\*\*\* Data for the period July 2003 – December 2003 has been revised following the submission, in December 2004, of adjusted data by one of the grower organisations.

### 3.2 Small sawlogs

Small sawlogs are all logs suitable for sawmilling with a diameter of less than 24.0 cm small end diameter under bark. The Index value, volumes and the maximum, minimum and weighted average prices are shown in the charts below.

Across the 11 growing regions there were six instances where the stumpage price for small sawlogs increased between the two most recent reporting periods, and four instances where the price decreased. One region did not sell any small sawlogs during the reporting period.

There were four instances where the price of small sawlogs varied (increased or decreased) by more than 10 per cent. The reasons influencing small sawlog price changes include improved sourcing with lower production costs; volume reductions; and contract amendments.

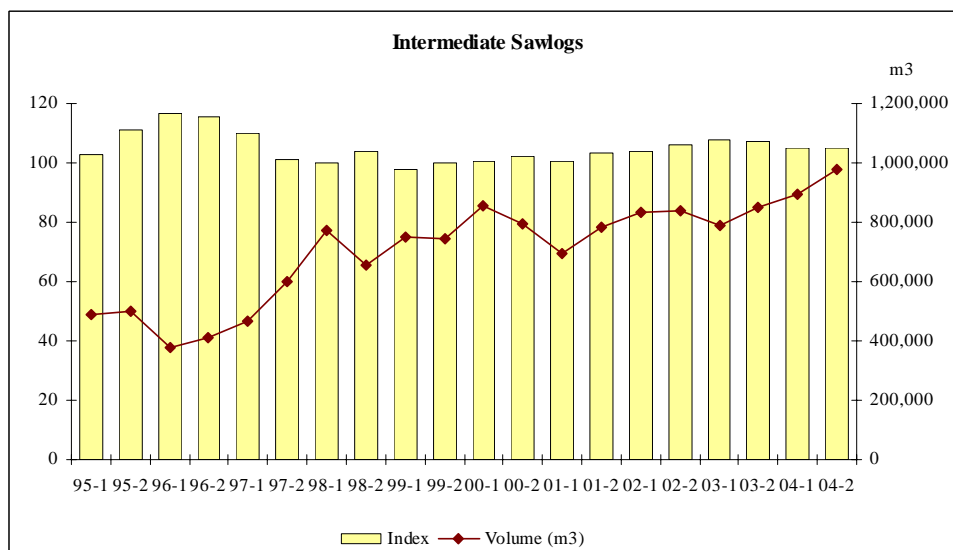
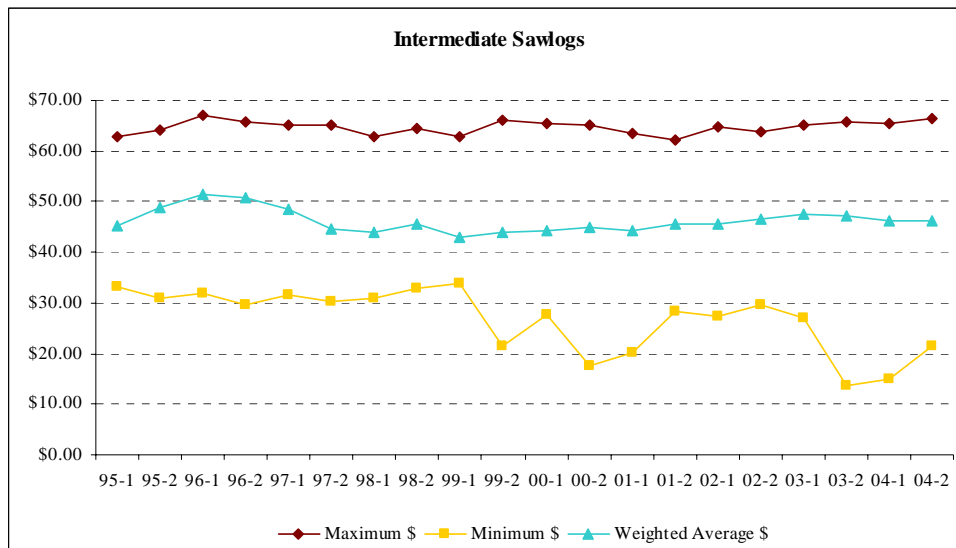


### 3.3 Intermediate sawlogs

Intermediate sawlogs are all logs suitable for sawmilling with a diameter range of greater than or equal to 24.0 cm to 31.9 cm small end diameter under bark. The charts below depict the Index value, volumes and the maximum, minimum and weighted average prices achieved over the reporting period.

Across the 11 growing regions, there were five instances where the log price for intermediate sawlogs increased and six instances where the log price decreased between the last two reporting periods.

There was only one instance where the price of intermediate sawlogs varied (increased or decreased) by more than 10 per cent. An increase in the volume of logs traded contributed to the price variation.

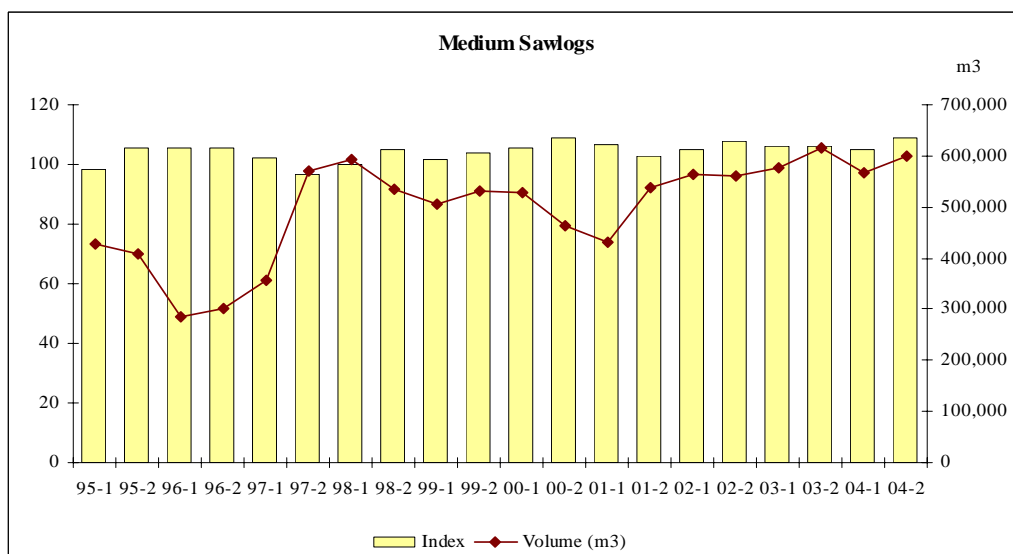
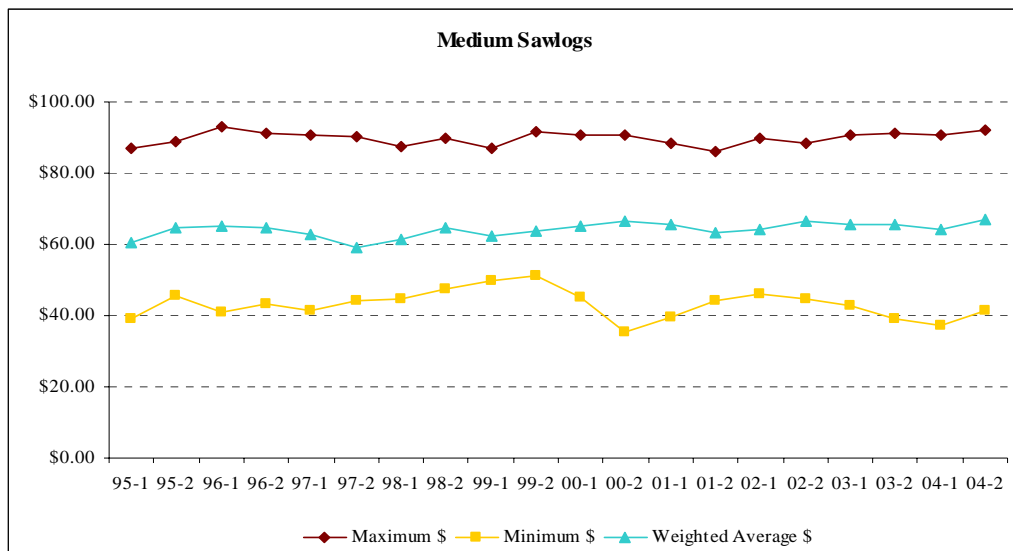


### 3.4 Medium sawlogs

Medium sawlogs are defined as all logs suitable for sawmilling with a diameter range of greater than 31.9 cm to 43.9 cm small end diameter under bark. The Index value, volumes, and maximum, minimum and weighted average prices for the reporting period are presented in the charts below.

Across the 11 growing regions, there were nine instances where stumpage prices increased and only one instance where prices decreased between the last two periods. One region did not sell any medium sawlogs during the reporting period.

There were two instances where price variations (increases and decreases) were greater than 10 per cent. Factors influencing the price variations included volume variations, and lower production costs.

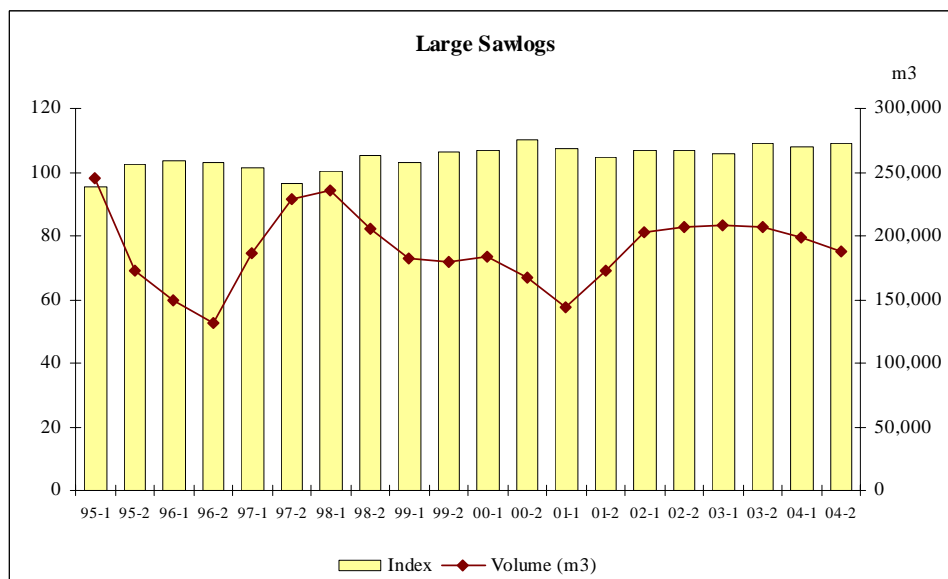
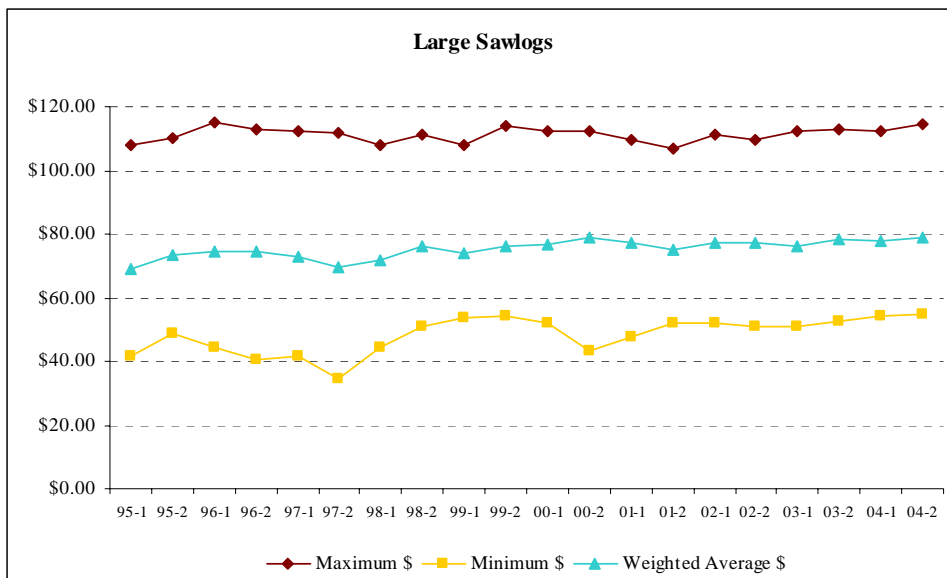


### 3.5 Large sawlogs

Large sawlogs represent all sawlogs suitable for sawmilling with a diameter greater than 43.9 cm small end diameter under bark. The charts below depict the volumes, prices and resulting Index for large sawlogs since 1995.

In the reporting period July to December 2004, there were eight instances where the log price increased and only one instance where the price decreased compared with the previous period. Two regions reported no sales of large sawlogs during the period.

There were no instances where price variations (increases and decreases) were greater than 10 per cent for the July to December 2004 period.

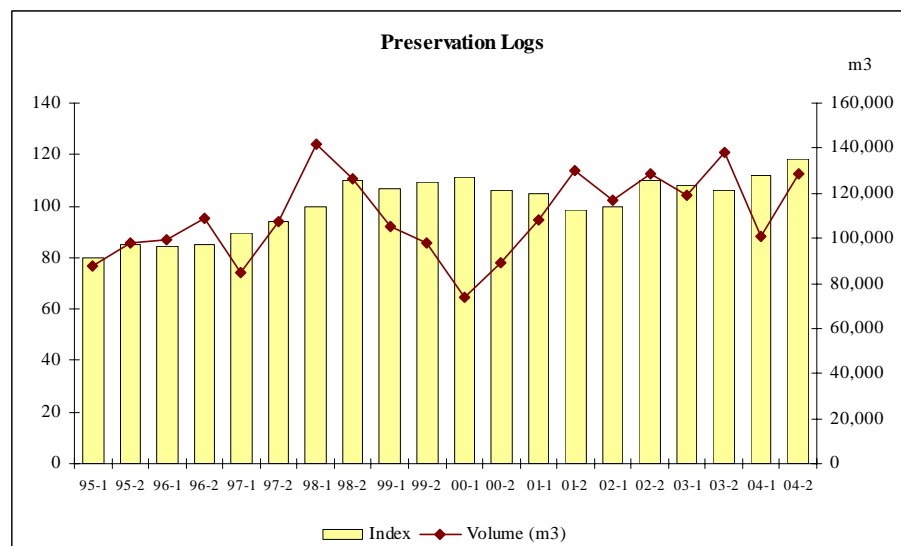
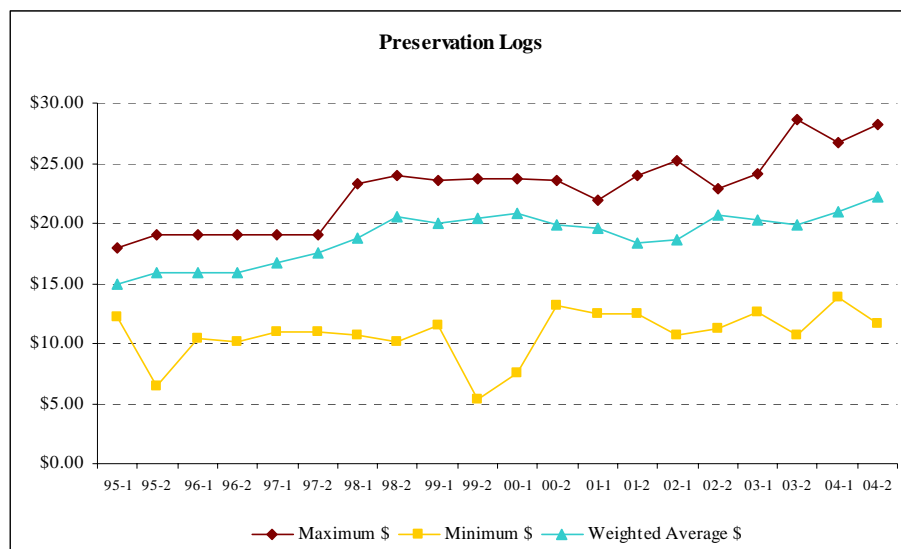


### 3.6 Preservation logs

Preservation logs are those logs sold to domestic treatment plants for use as poles, rails and posts. Posts are generally the majority of sales (by volume). The charts below illustrate the Index value, volumes and maximum, minimum and weighted average prices for the reporting period of July to December 2004.

There were five instances where prices decreased and four instances where prices increased between July to December 2004 and the previous reporting period. One region reported no price change between the last reporting period and the current period and one region reported no sales of preservation logs during the period, July to December 2004.

There were five instances where the change in preservation log price between the current and previous reporting periods was greater than 10 per cent. Reasons given by grower organisations for these changes included the impact of spot-sale contracts and impact of new contracts.

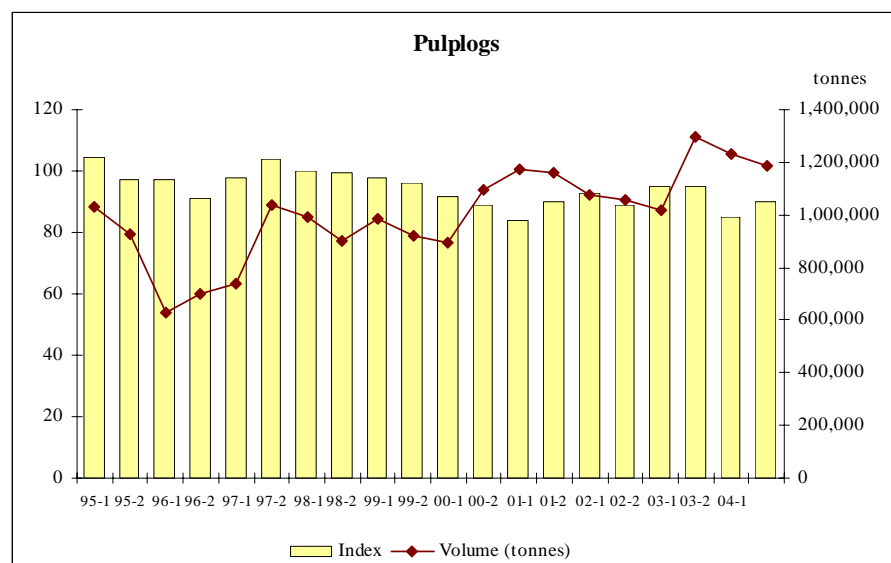
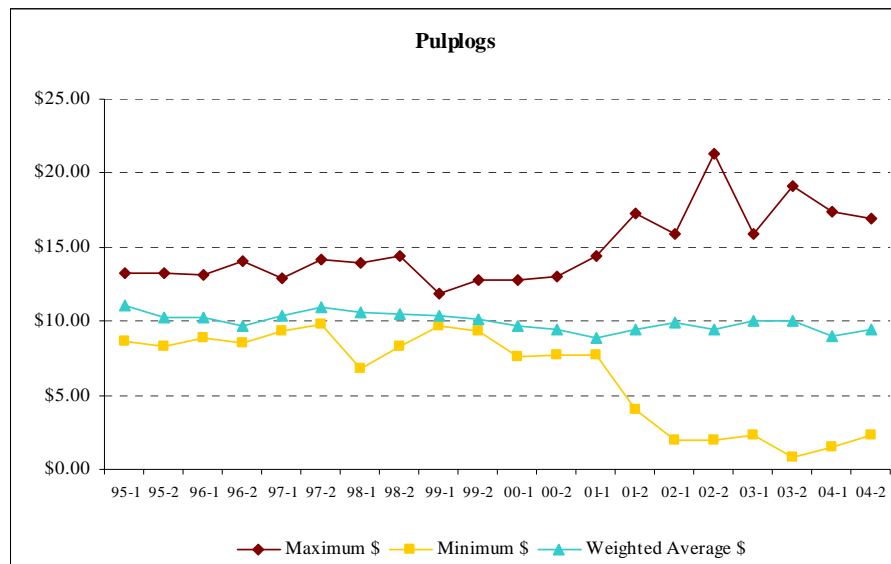


### 3.7 Pulplogs

Pulplogs are all logs sold to domestic manufacturers of pulp and paper, woodchip and fibre-based panels and other such products, including logs processed for export woodchip. The volumes, Index value and maximum, minimum and weighted average prices for pulplogs across the reporting period are shown in the charts below.

In the July to December period there were five instances of a price increase, and four instances of price decreases. One region reported no price change for the period and one region did not sell any pulplogs during the reporting period.

There were four occasions where price changes (both increase and/or decrease) were greater than 10 per cent. Reasons for these price changes as cited by the growers included an improvement in the export chip price; and a reduction in logging costs.

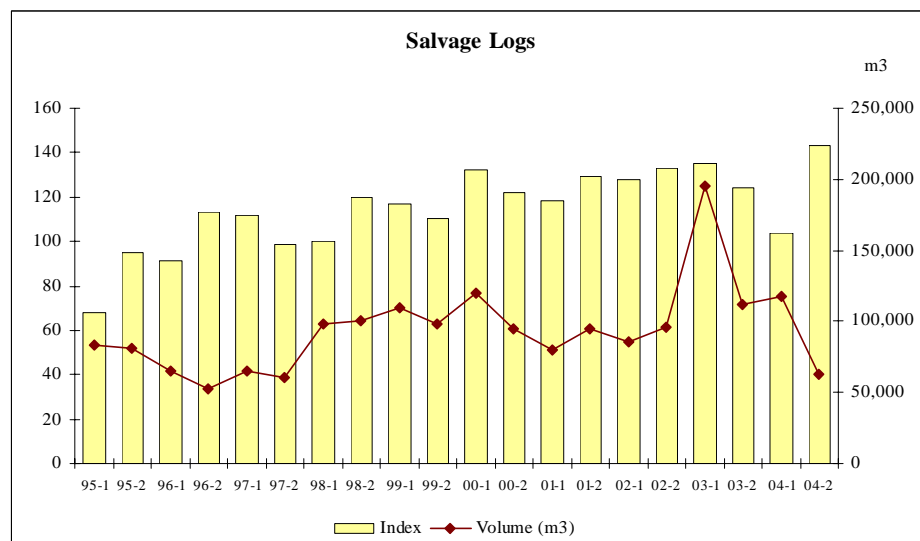
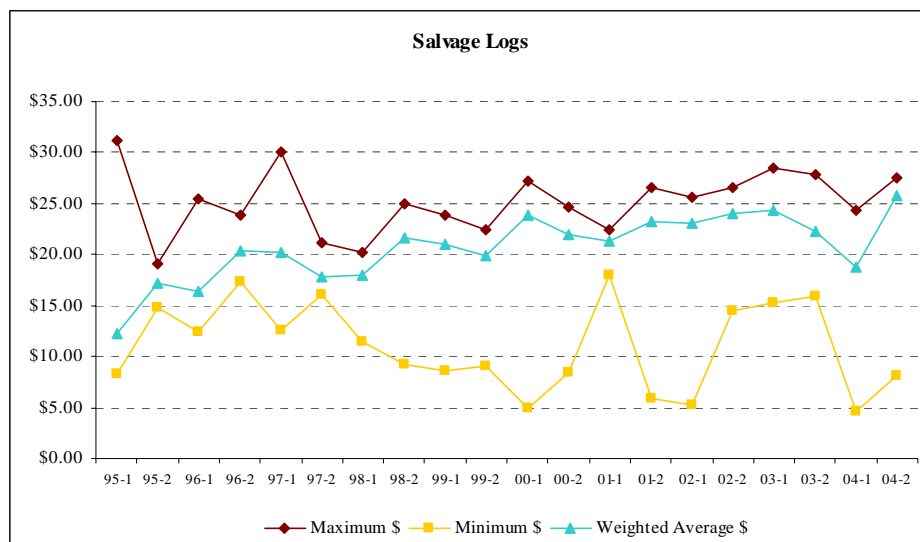


### 3.8 Salvage logs

Salvage logs are generally those logs excluded from the previously described log classes on the basis of price and wood quality. Salvage logs may include break/edge tree logs, damaged logs, one-off spot sales, odd lot volumes of other species and short logs (less than industry standard minimum length). The Australian Pine Log Price Index records stumpage prices for all sizes of product classified as salvage log. As such, the calculated Index is the weighted average price of logs of any diameter included as salvage product.

There were four regions reporting sales of salvage logs in the July to December 2004 period. Of these regions, three reported price increases while the fourth recorded no change in prices for the period.

Two of the four growers recorded a price variation of more than 10 per cent. Negotiations with customers contributed to variations in stumpage price.

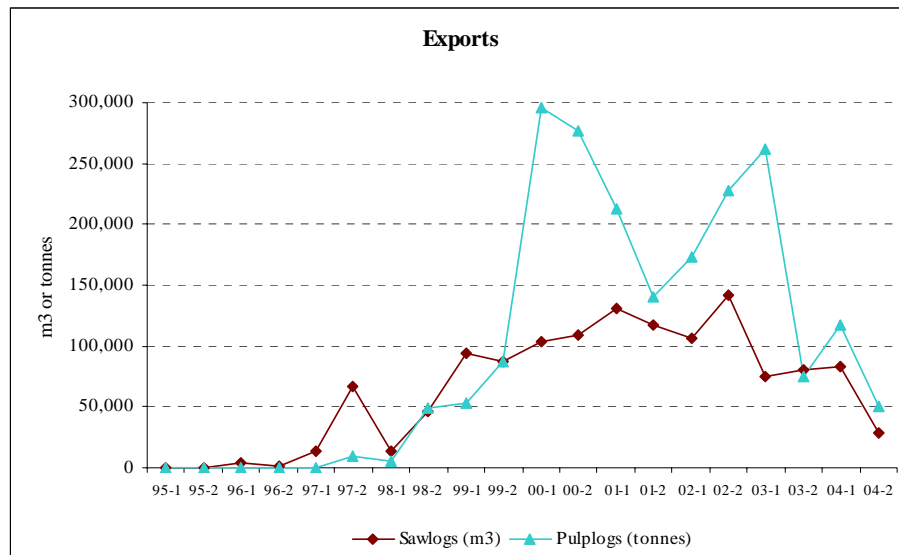


### 3.9 Export sawlogs and export pulplogs

The Australian Pine Log Price Index reports on the quantities of export sawlogs and export pulplogs sold. It includes all unprocessed logs sold as sawlogs and pulplogs.

The chart below depicts the volumes sold for both logs classes across the current life of the Index.

Compared to the previous reporting period, the volume of both export sawlogs and export pulplogs sold significantly decreased. Four regions contributed towards sales of export sawlogs, while two regions contributed towards export pulplog sales.



## **4 Index methodology**

KPMG coordinates the preparation of the Australian Pine Log Price Index for each six-month period ending 30 June and 31 December. This involves the collection of data from each participating grower organisation and the preparation of this report. Ownership of the Australian Pine Log Price Index remains with those contributing organisations.

The Index represents aggregated information from all contributing growers and includes the weighted average price; price per cubic metre; price range; price index (based on the period January to June 1998, which is set at 100); and total volume of each Index product sold over the period.

KPMG maintains data integrity by ensuring that data is consistent between periods and that it accurately represents all relevant log sales, as far as possible. Integrity is also maintained through each contributing organisation being a large-scale softwood plantation grower with a core business focus on commercial forest products. However, they do not have a direct financial interest in log processing. Each contributing organisation must justify price variations between reporting periods that are greater than 10 per cent.

The Index is presented so as to ensure, as far as possible, that no individual grower's prices or quantities are identifiable by other contributing growers, or by any other party.

### **4.1 Information ownership and management**

The Index includes sales of all plantation grown softwood species, primarily being Radiata Pine (in the southern States) and Slash and Hoop Pine (predominately in Queensland).

The product groups reported in the Index are defined in the Table Three presented on the following page.

### **4.2 Products excluded**

Data from the sale of the following products is excluded from the Index:

- pruned clearwood logs – logs that achieve a premium stumpage over “normal” sawlogs, reflecting the value and the cost of growing;
- plantation hardwood and native forest products; and
- small volumes of species and products unrepresentative of the defined Index products.

**Table Three: Product groups reported in the Australian Pine Log Price Index**

<i>Log class</i>	<i>Index product</i>	<i>Unit</i>	<i>Description</i>
Sawlog Class 1	Small sawlog	\$/m <sup>3</sup>	All logs suitable for sawmilling with diameter <24.0 cm sedub.*
Sawlog Class 2	Intermediate sawlog	\$/m <sup>3</sup>	All logs suitable for sawmilling with diameter range 24.0 cm – 31.9 cm sedub.
Sawlog Class 3	Medium sawlog	\$/m <sup>3</sup>	All logs suitable for sawmilling with diameter range >31.9 cm – 43.9 cm sedub.
Sawlog Class 4	Large sawlog	\$/m <sup>3</sup>	All logs suitable for sawmilling with diameter >43.9 cm sedub.
Pulplog	Pulplog	\$/tonne	All logs sold to domestic manufacturers of pulp and paper, woodchip/flake-based panels and other such products, including logs processed for export woodchip.
Preservation log	Preservation log	\$/m <sup>3</sup>	All logs sold to domestic timber treatment plants including rails, poles and posts.
Salvage log	Salvage log	\$/m <sup>3</sup>	All logs excluded from the above products generally on the basis of price and wood quality. Price is the weighted average for all sizes of all products – i.e. one price only for salvage log.
Export sawlog	Export sawlog	m <sup>3</sup>	All grades and sizes of unprocessed logs sold as export sawlog. Total quantity only, price is not recorded.
Export pulplog	Export pulplog	tonne	All grades and sizes of unprocessed logs sold as export pulplogs, excluding logs processed for export woodchip. Total quantity only, price is not recorded.

\* sedub = small end diameter under bark.

### 4.3 Price calculation

The Australian Pine Log Price Index is calculated on the weighted average net stumpage achieved by the plantation owner inclusive of all licence fees and charges relating to log value.

$$\text{Net stumpage of each Index Product} = \text{Total Revenue} / \text{Total Quantity}$$

Growers report stumpages to the Index, however, these are either calculated or set periodically depending on the point of sale.

1. Stumpage sales:

Net stumpage is set periodically by the seller in agreement with the buyer and represents the value of the standing tree.

2. Mill door sales or sales resulting from “unusual” operations (e.g. where the grower has subsidised cable harvesting for particular operational reasons):

Net stumpage is defined as delivered sale price less transport and harvesting costs.

The growers encourage use of the Index by interested parties, however, all parties should be aware that no attempt has been made to account for variations in factors that influence log value. Such factors primarily relate to additional costs incurred by the plantation owner or log processor. Examples include:

1. The impact of wood quality variation both within and between species, including stem form, wood density, branching characteristics and the inherent level of defects in the wood at a given location. All of these factors will affect mill performance and processed product quality, and hence influence the value recovery from a particular plantation.
2. Log size variation impacts on harvest costs, transport costs, sawn recovery and processing costs.
3. Harvest cost may be affected by soil type, topography, climate, piece size, species, scale of operation, harvest equipment requirements and harvest contract terms and conditions.
4. Log transport costs may vary due to distance, road conditions, topography (effect on transport time), piece size (impact on load and unload costs), equipment configuration/payload and transport contract terms and conditions.
5. Finished product transport costs will vary primarily according to the distance between the processing plant and markets, which impacts on log value.
6. Differences between products harvested from thinnings and clearfell operations, in terms of both extraction cost and value of products recovered.
7. Any unusual additional costs, for example licence or access fees.
8. Impact of variation in log sales contract terms and conditions on resource value, for example the value of long-term resource security or the marginal cost impact of short-term competitive sales.

## **4.4 Comments on the structure of the Index**

The following have been identified as potential Index anomalies:

- Each grower's sawlog centre diameter class sizes may not precisely match the Index sawlog small end diameter sizes. As the Index defines precise data groups, each grower needs to adapt existing internal categories to fit the Index requirements.
- The Index includes products sold primarily to the domestic market only. Export sale prices are currently not included for either sawlogs or pulplogs.
- Any minor variation in calculation method between contributing organisations is not considered important, provided the adopted methodology appropriately represents sales value for each period; is applied consistently each period; and remains consistent and representative over time. To ensure absolute compliance, an audit process could be introduced but this would be very costly.
- Any diversity of species included may distort the resulting Index data. Index log product categories need to be grouped on comparable end use. The issue as to whether non-Pinus species should be excluded from the Index, or a separate category be introduced for non-Pinus species, is currently unresolved.
- Mill door prices are not included. It is expected that in some regions the proportion of mill door sales will increase and this needs to be addressed. Future developments to the Index may also show mill door prices, which will be of interest to roundwood purchasers.
- Log measurement methods are currently not documented by all growers. It is suggested that both the large and small ends of each log be measured under bark, and the average be applied as the half log diameter. Where all logs are not individually measured, the weight and sample measurements are used to convert the weight to volume by diameter class to produce equivalent volume and cost.
- There is concern about the size 1 class (<24 cm), as a minimum sedub (small end diameter under bark) is not specified. This minimum sedub will vary for each grower and can range from 12 centimetres to 20 centimetres, which will impact on the results for this log class.

## **4.5 About KPMG's Forestry Group**

KPMG's Forestry Group supports Australia's forestry and downstream industries with a comprehensive range of services, drawing on the vast accumulated knowledge and experience of KPMG's International Forestry Group and specialist groups such as the Government and Advisory group which produces the Pine Log Index. The Group provides the following services

- Advice on the regulatory and economic environment including the production of the Pine Log Index.

- Audit and services including conversion to International Financial Reporting Standards and support with SGARA issues
- Taxation services including product rulings, for plantation companies, GST, R&D, taxation reform, employee taxation and international tax considerations
- Treasury advisory services
- Transactions support for mergers and acquisitions
- Financing support and feasibility studies
- Management assurance services
- Sustainability issues such as Greenhouse gas protocols, environmental issues and reporting
- IT Risk management

## **4.6 Contacts**

### 4.6.1 KPMG Pine Log Index and Government and Regulatory Services

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