



Mr Nick Ramsay AM  
Chair  
National Assembly for Wales Public Accounts  
Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

10 April 2017

Dear Nick,

### **Public Accounts Committee – 28 March 2017**

At the PAC session on 28 March, we agreed to provide further information on several topics, as follows:

#### **How are timber sale contracts arranged and priced?**

The contracts awarded to the operator under the Memorandum of Agreement were a combination of 4 existing Standing Sales Long Term Contracts (LTCs) for Spruce that were extended and 4 new LTCs for Larch.

Several factors affect the prices in individual contracts:

**Method of Sale:** The contracts were either 'Standing Sales' where the customer bears the cost of felling the timber and associated haulage, or 'Roadside Sales' where NRW bears the costs. The prices in the contracts will reflect these different methods of sale.

**Site Conditions:** The site conditions will dictate the method of felling and consequently impact on the price i.e. steep ground working is more expensive than flat ground. The location will also impact on the cost of haulage in delivering the timber to the customer.

**Tree size and timber quality:** Much of the larch is of a smaller tree size and of poorer quality than our other crops. This reduces the proportion of higher value saw-logs. Furthermore the cost of processing infected Larch are higher due to bio-security restrictions.

In all cases the contracts allowed for a price review to take place using defined formulas at specified intervals to ensure changes in market prices were taken into account.

### **Cost of legal advice in relation to challenging the findings contained in the Auditor General's Report**

During the Auditor General for Wales's investigation, the WAO sought independent legal advice on several aspects of the contracts, which he shared with us; these included:

- whether the contracts were sales contracts or fell under public procurement;
- advice on public law;
- advice on state aids.

As the Auditor General acknowledges in his report, the issues raised a number of complex legal issues. As Accounting Officer, I felt it appropriate, given the complex issues raised, to take our own independent legal advice in order to protect the position of Natural Resources Wales in the event of possible legal challenge. The advice I have received does not always correspond with that of the Auditor General's. The cost of obtaining that advice was £22,300.

### **Practice adopted by NRW in managing staff sickness**

We have developed and implemented a number of NRW policies and procedures to more effectively manage sickness absence in the workplace on a consistent basis. In addition, we have ensured access for managers and staff to an effective occupational health and employee assistance service provision to support staff who are unwell and ensure their timely return to work.

We have committed to managing risk of mental health absence through delivery of mental health first aid training and emotional resilience training.

In NRW in the last 12-24 months we have focussed our attention on improving the quality and quantity of our absence data to develop the way we monitor and manage sickness absence.

We have used multiple internal communication channels to raise awareness of the policies and procedures, new recording system and support provisions to all staff in NRW. This is an area of work that requires continual monitoring and focus, which again we achieve through regular communication with managers and staff. Absence management data is reviewed by the NRW Board, Executive Team and local management.

Notwithstanding the above developments, it is clear that the dedication, commitment and pride that NRW staff show to meeting the objectives of NRW minimise the occurrence of sickness absence.

## Internal Audit Report

This will be forwarded as soon as the work is completed.

## Business Case

The Business Case is attached. It has been redacted in several places to protect the names of the parties who were involved in the commercial negotiations at the time.

I also wish to inform the Committee that as the operator has not complied with the requirement in the Memorandum of Agreement to install an additional log line, the contracts lapsed on 31 March 2017. New contracts have been put in place to ensure an orderly wind-down of the previous contracts over the coming months while we re-market the remaining timber in accordance with our Timber Marketing Plan.

Yours sincerely,



**Emyr Roberts**

**Prif Weithredwr, Cyfoeth Naturiol Cymru  
Chief Executive, Natural Resources Wales**

# Natural Resources Wales

## Executive Team Paper

### August 2013

<b>Paper Title:</b>	<b>Developing Options for Larch investment and wider guidance on replacement of existing Spruce LTCs</b>
<b>Paper Prepared By:</b>	<b>Jerry Pritchard - Head of Timber Marketing for NRW</b>
<b>Purpose of Paper:</b>	<b>To have a final position by Sept 31<sup>st</sup> in order to make a final offer to on Larch investment and to give a wider position to the trade on our future Spruce Marketing plans and intention.</b>
<b>Recommendation:</b>	<ul style="list-style-type: none"> <li>• Seek HMO/Head of Operation agreement</li> <li>• For Head of Operations to seek Head of Enterprise support for an agreed course of action</li> </ul>

#### **1. Issue**

- 1.1 We are reaching the final stages of the Phytophthora Ramorum (PR) Larch awards. The rapidly escalating position on Larch infection made evident during 2013 means Natural Resources Wales (NRW) needs to stimulate more processing capacity specific to Larch processing and contractor felling resource.
- 1.2 The scale of challenge on PR has unavoidably linked Spruce production and Spruce Long Term Contract policy intent as a major dependency to the decision on Larch investment in Wales.
- 1.3 The Larch processing investment is key critical to the marketing of Larchwood for both private and public sectors in Wales and the Marches over the following 10 years to 2024.

#### **2. Progress to date**

The spread of PR in Wales has been more rapid than had been initially predicted. The disease has now progressed from the original epicentre of the Afan and Dulais valleys to encompass an area stretching from the Welsh border at Wentwood to Talybont-on-Usk, Taf Fechan and most forests west of this line to Brechfa and Caniston in Pembrokeshire. Standing infected stands are now totalling nearly one million cubic metres over bark standing (m<sup>3</sup>obs) on the Welsh Public Estate with further infection likely next year but it is difficult to determine the extent that will be encountered, but the disease spread can only be slowed not contained.

There is also an increasing incidence in identification of the disease in privately owned woodland but currently only at small percentage of the problem encountered on the Public Estate, this expected to rise in the coming years.

To counter this spread on the public estate and provide a positive action plan NRW released two standing sale long term contracts in the spring of 2013, these contracts committed to a total volume of 560,000m<sup>3</sup>obs larch over a period of five years in the Coed y Cymoedd Forest District (CyC) and 100,000m<sup>3</sup>obs in Llandovery FD. There was also a planned release of a Direct Production contract for the western areas of CyC in the second half of the calendar year.

As the spring 2013 progressed and the larch came in to needle the extent of the disease spread from the last known points of the infection September 2012 became clearer. The disease had taken firm hold in Llandovery Forest District where there had only been sporadic outbreaks during 2012 and there had been a dramatic progression east throughout the CyC FD. It was obvious that the planned Long Term Contracts (LTCs) were now not sufficient to deal with the disease at its current rate of expansion. The disease control plan and larch replacement strategy were revisited and larch felling was increases from 220,000m<sup>3</sup>obs in 2014 to 350,000m<sup>3</sup>obs per annum for following five years, 2015 – 2020 (see table 1 below)

Table 1  
Larch Clearance plan revised July 2013  
(Figures in 100ks)

	<b>CYC</b>	<b>Llan</b>	<b>CYM</b>	<b>CYG</b>	<b>Totals</b>
2013/14	115	25	10		150
2014/15	140	65	15		220
2015/16	190	138	20	2	350
2016/17	190	138	20	2	350
2017/18	200	120	28	2	350
2018/19	130	130	65	26	351
2019/20		130	180	40	350
2020/21		74	110	40	224
2021/22			110	40	150
2022/23			110	40	150
2023/24			30	40	70
2024/25				40	40
2025/26				40	40
<b>Total</b>	<b>965</b>	<b>820</b>	<b>698</b>	<b>312</b>	<b>2795</b>

The total volume of larch available from public and private woodland in Wales and the Marches could be as high as seven million m<sup>3</sup>obs during this period.

The tender returns were evaluated and scored during July 2013 and it was recommended that three parties that made bids all be awarded contracts. This decision was made on the back of the quality and solutions offered in the bids and the fact that there was now more volume to place into contracts due the unforeseen increase of disease spread.

An offer of three standing sale contracts each totalling 65,000m<sup>3</sup>obs per annum for five years were offered in CyC two to [redacted] and one to [redacted]; this award will take out the need to run the proposed Direct Production (DP) tender in CyC, planned for released in the autumn of 2013. This DP tender opportunity will be moved to Llandovery Forest District as part of the revised disease control strategy and to provide the platform to produce larch log bar material for the DP options discussed later on in this paper.

A further standing contract was offered to [redacted] for 65,000m<sup>3</sup>obs in Llandovery FD. This offer was made to support the intended new milling infrastructure investment at [redacted] sawmills in recognition that without an offer of supporting volume the project would have no chance of approval by the [redacted] management board. This offer was made for a maximum of ten years but the location of the contract would have to migrate northwards following advance of the disease through Wales once the Llandovery volume had been worked out.

The overall result was that each bidder received an offer for at least the minimum contract volume that was on offer, although the areas of the offer had changed.

Currently larch that has been offered to the market by NRW and the private sector has been absorbed by the processors by substitution, by taking larch and not spruce or other species, but there is a limit to how much of this can be achieved with out damage to their businesses, as some of their customers will not accept larch in the finished products. There is a need to increase the overall processing capacity for larch and ensure that as much material as possible is going into value markets, fencing and garden products for example whilst the hope is that some will also go into the housing market.

### **3. Scope**

Two of the three bidders are quite satisfied with the outcome of the tender, [redacted] have secured enough volume to continue their plans for a fuel pellet and CHP plant located in [redacted] [redacted] are confident of being able to harvest and market 130,000 m<sup>3</sup> of larch per annum from Coed Y Cymoedd FD an area where they have a good track record for delivery with some extremely challenging sites completed under a winch LTC let four years ago, but at much lower annual volumes.

[redacted] were not content with the offer that was made to them, even though Llandovery FD is significantly closer to the mill at [redacted], both tree size and tree form in the Llandovery FD are superior to that offered in Coed Y

Cymoedd. The offer of 65,000m<sup>3</sup>obs standing should produce approximately 30,000 tonnes of mill material at 14cms plus.

We were aware that [redacted] needed a further supply guarantee of larch volume before committing increase the capacity at [redacted]. To assist in this [redacted] were also offered an under pinning volume from the proposed DP long term contract that will be centred in the western areas of Llandovery FD. The total offer was 55,000 tonnes of larch per annum from NRW, against a production capacity assumed to be between 100,000 and 110,000 tonnes per annum with the potential to increase even further if supply and markets can be found but we presume that calculations have been worked on a production volume of 100,000 tonnes per annum.

[redacted] have also indicated that investment at [redacted] will not take place unless they can be offered some surety on continuing supply of the spruce element for the mill. They are aware that spruce supply from Wales will be tight whilst the larch is being dealt with and are keen to secure as much volume as they can (reference Table 8). The current position is they have access to 64,000 tonnes of spruce sawlog material made up from:

Table 2  
Current Long Term Contracts

Contract	Location	Roadside/Standing	Annual Volume M <sup>3</sup> obs .	Log /bar
L13790	Tywi Dyfi Hafren Sarnau	Roadside	41,000 obs logs 18cms+	33,000 m <sup>3</sup> ub
L12480	Tywi Hafren Sarnau	Roadside	12,400 obs bars 14cms – 18cms	10,000 m <sup>3</sup> ub
L12406	Vrnwy	Standing thin and clearfell	20,000m <sup>3</sup> obs	8,000 tonnes Log and Bar
L12407	Coed y Cymoedd	Standing harvester clearfell	30,000m <sup>3</sup> obs	13,000 tonnes Log and Bar
Total			103,400m <sup>3</sup> obs	64,000 units of sale m <sup>3</sup> ub/tonnes

[redacted] are looking for reassurance that this volume total will continue to be offered to the company in the form of Long Term Contract agreements.

#### 4. Options for the Larch

4.1 [redacted] put in a counter offer to the NRW proposal, which offered the standing sales parcel in Llandovery of 65,000m<sup>3</sup> obs and access to larch

logs produced by direct production to make up a volume of 55,000 tonnes to the sawmill, this would commit all DP larch production from Llandovery FD. The counter offer was that [redacted] would take the entire volume of log and bar off one of the [redacted] contracts based in CyC FD and become co owner of the contract, [redacted] would then work the parcel offered in Llandovery FD instead of [redacted]

There would then not be a substantial reliance on DP logs to make up the volume to 55,000 tonnes per annum. However their proposal would then commit [redacted] to harvesting 195,000m<sup>3</sup>obs per annum on the larch long term contracts. This poses substantial business risk to NRW in that;

- [redacted] trading with FCW has never exceeded 90k per annum and the average over the last 5 years is 67,000m<sup>3</sup>obs. We would be asking them to increase to over 200,000k in a very short time as they still have open market commitment and we would not want to loose them in that market.
- Reducing the presence of [redacted] in the market could also be counter productive; their annual trading for standing sales in Wales over the last 5 years has been 138,000m<sup>3</sup> obs with a good mix of LTC and open market sales.
- [redacted] taking all the log and bar from one of the south Wales contracts plus material for the Llandovery contract may well cause supply problems for both [redacted] and [redacted] who were bid partners in the [redacted] offer as well as [redacted]

4.2 It is the preferred option for NRW that [redacted] allow [redacted] to harvest a co-owned LTC in Llandovery FD and that [redacted] purchase an element of log from [redacted] from the contracts they secured in South Wales, this volume could amount to 15,000 tonnes of log and bar per annum once the new saw line is running. The volume would be sourced from the more northerly forest areas in Coed y Cymoedd to reduce the transport costs but the exact location and volumes would be for [redacted] and [redacted] to agree upon. This scenario reduces the standing sale risk associated with expanding the [redacted] business too quickly and keeps [redacted] in place as a strong player in the Welsh market.

- It allows [redacted] to distribute the log material in South Wales with too much constraint keeping [redacted] and [redacted] Timber in the market as is their expectation after entering agreement with [redacted] for supply in the initial tender bid.



- Any volume commitment will cease after 5 years as the Coed y Cymoedd contract will have come to an end as all the larch will have been felled and market. This contract closure will allow further access for supply to the mill for the private sector that should be coming into the market with larger volumes by that time
- The commitment of NRW providing 55,000 tonnes of larch material for a period of five years to the development is maintained through three routes, 15,000 tonnes from in CYC, 30,000 tonnes from the standing contract in Llandovery and a balance of 10,000 tonnes from the Direct Production in western Llandovery FD.

However this volume alone will not be acceptable to as they will view the volume as a possible volume stream that may come to them should not have any other options for the material, it is unlikely that either party would enter into a contractual commitment to receive or supply. DP could offer to cover the volume that were to supply as well as the 10,000 tonnes that is mention above making the DP offer 25k tonnes per annum. Volume would be sourced from Llandovery FD initially but may also come from Coed y Mynydd and Coed y Gororau as the disease progresses north. Commitment could be offered over a 10 year period.

##### **5. Why is this decision a priority?**

We must try to ensure that the proposed development at goes ahead as it will provide a marketing solution to the sawlog element that will be coming forward from the potential seven million cubic metres of standing larch that will need to be felled in Wales and the Marches over the next 10 to 12 years.

Larch production is set to increase to 350,000m<sup>3</sup> obs from the public estate in the next two years additional production capacity will be needed by then if we are to maximise revenue returns as current facilities would struggle to continue to absorb larch to this figure. Further private sector volume will also be coming on stream in this period.

This development will enable growers to maximise returns for material to 14cms top diameter and to a short length (2.45meters), currently there are no mills in Wales milling timber infected with Phytophthora Ramorum to 14cms TD. currently cut material to 16cms top diameter and will take a poorer quality than the standard green specification for sawlogs but have a very limited requirement minimum short length of 3.1metres.

The development will well placed in the centre of Wales to take material from all directions which will help in reducing overall timber haulage costs for the growers.

Alternative markets are chipwood or biofuel, higher carbon storage through production of milled timber will be achieved by supporting this development.

are a progressive company who will move this proposed development in to another if their production plants leaving site under invested and having to wait for the next cycle of updating which could be some years away.

## **6. Options for delivery of Spruce LTCs**

The marketing plan and the sales plan will need to be heavily adjusted to accommodate the proposed larch volume during the coming years. The swing to larch will be absorbed mostly through a delivery by standing sales merchants using long term contracts. This will severely restrict what else can be marketed through the standing sales delivery method.

### **I. Do nothing - allow LTCs to expire and the wait until marketing strategy rewrite before any further opportunities given.**

This would most likely convince that investing in the plant at this point of time would not be a good idea and they would focus further investment into other mills within the group leaving badly under invested and running on machines that are getting very dated. Some equipment is still in place from when the mill was commissioned in 1981.

However it would be fair to all those who did not gain access to long term contracts in the last rounds as the market would be invited to make fresh bids for the material they would have a chance to make a bid should they chose to. It would also conform to the current marketing strategy in keeping the LTC balance between 40% and 60% of the total volume offered in the sales plan and offering opportunities to the market when volume became available. This is in line to what the trade at large are expecting after the messages we have given them in the last few trade liaison meetings

### **II. Extend LTCs to all parties at current levels with reduction in open market short term sales:**

On DP this would not too much of a hardship, we are committed to as out lined above, 8,333 tonnes of spruce log and 6,250 tonnes of spruce log per annum but it would be useful to refresh these contract as they expire as we looking to get synergy on sites with log and bar contracts going to one buyer.

Table 4  
Other Standing Sale Long Term Contracts

Contract	Merchant	Annual Volume	Delivery
L12404		25,000m <sup>3</sup> obs	Clearfelling Winch work
L12408		17,500m <sup>3</sup> obs	Difficult to market material
L12410		10,000m <sup>3</sup> obs	Difficult to market material
L12405		31,000m <sup>3</sup> obs	Clearfelling Winch work
Total		83,500m <sup>3</sup> obs	

Table 5  
Possible Standing LTC Commitment

Merchant	Annual Volume m <sup>3</sup> obs	Thin volume m <sup>3</sup> obs	Fell volume m <sup>3</sup> obs	Years to current completion date
old contracts	50,000	8,000	42,000	1 year
Proposed new larch Contracts	260,000		260,000	5 years
old contracts	42,500	10,000	32,500	1 year
	10,000	5,000	5,000	2 years
	31,000		31,000	2 years
Total	393,500	23,000	370,500	

Table 6  
Annualised Programme

	Direct Production Non Larch	Direct Production Larch	Standing Sales Non Larch	Standing Sales Larch	Totals
Thinning	100,000		90,000		190,000
Felling	230,000	70,000	120,000	280,000	700,000
Fell Totals	300,000		400,000		
Totals	330,000	70,000	210,000	280,000	890,000
	400,000		490,000		890,000

Table 7  
Total Annual Program 2013 to 2021 Thinning and Felling  
(All quantities in units of 100k m<sup>3</sup>obs)

Forest Year	Thinning program	Fell spruce other conifer	Fell larch	Thin and fell
<b>2013/14</b>	<b>215</b>	<b>495</b>	<b>150</b>	<b>860</b>
<b>2014/15</b>	<b>190</b>	<b>375</b>	<b>305</b>	<b>870</b>
2015/16	190	380	327	897
2016/17	215	345	327	887
2017/18	230	315	335	880
2018/19	240	305	346	891
<b>2019/20</b>	<b>245</b>	<b>315</b>	<b>330</b>	<b>890</b>
<b>2020/21</b>	<b>265</b>	<b>505</b>	<b>130</b>	<b>900</b>

Table 8  
Assumed Spruce in programme 2013 to 2021  
(All figures 100k m<sup>3</sup>obs)

Forest Year	Thinning spruce (71%)	Fell spruce (85%)	Total spruce	Spruce log bar (40% thin 80% fell)
<b>2013/14</b>	<b>152</b>	<b>351</b>	<b>503</b>	<b>341</b>
<b>2014/15</b>	<b>135</b>	<b>319</b>	<b>454</b>	<b>287</b>
2015/16	135	323	458	270
2016/17	152	293	445	257
2017/18	163	268	431	244
2018/19	170	259	429	241
<b>2019/20</b>	<b>174</b>	<b>268</b>	<b>442</b>	<b>248</b>
<b>2020/21</b>	<b>188</b>	<b>429</b>	<b>617</b>	<b>361</b>

To extend the contracts in Table 4 would reduce our ability offer to open market to less than 100,000m<sup>3</sup>obs per annum from a programme of 490,000m<sup>3</sup>obs, of which 20,000 would be clear felling infected larch in south Wales and leaving no other clear fell to offer all to offer. The balance of any open market standing sales offers would be 76,500m<sup>3</sup>obs thinning This is going to have a dramatic effect on our open standing sales market customers, with  
and left with very little opportunity to buy volume. Letting LTCs come to an end will put an additional 83,500m<sup>3</sup>obs into the market in 2015 and will ease the open position, although further opportunities for LTCs should then be offered to the market focused on thinning delivery from the standing sale sector.

By allowing these commitments to come to the natural end we could refocus our attention on delivering our standing sales thinning through long term contract agreements and build up resource to carry out this important part of the programme.

**III. Extend LTCs to [redacted] alone with balance going to new LTCs through a competitive process and open market sales.**

Extend the current LTCs held directly and in co ownership for supply of spruce wood by 5 years at full volume and for a further 5 years at a reducing annual volume so by year 15 they will be on 20% of the current volumes and all spruce contracts would be wound out the following year, 2024

**Table 3  
Proposed Spruce LTC Volumes**

Supply Year	Annual DP Log	Annual DP Bar	Standing	Standing Log Bar	Total annual L+B supply
Current position carries to 2018	33,000	10,000	50,000	21,000	64,000
Position in 2019	33,000	10,000	50,000	21,000	64,000
Position in 2020	26,400	8,000	40,000	16,800	51,200
Position in 2021	19,800	6,000	30,000	12,600	38,400
Position in 2022	13,200	4,000	20,000	8,400	25,600
Position in 2023	6,600	2,000	10,000	4,200	12,800
Position in 2024	0	0	0	0	0

We recognise that there be a danger of seeming to favour [redacted] if only volume that was destined to their facility was granted a long term contract extension, having the effect of reducing opportunity for others in future sales.

Extension of the two standing LTCs will further reduce the volume we have to offer in this market and also reduce the amount of spruce available to other users. In mitigation of this likely impact it is likely that the private sector subject to price will gain additional entry and penetration into the market place which in terms of overall woodland management would be a positive consequence in the market place.

would be gaining market assurance but the benefit and need for the Larch disease solution must ride high in NRW's decision making given no one else has come forward through the tender process with a solution to the disease control challenge NRW faces on the WGME. It is unlikely that we would see an equally good proposal come forward if we went out to the market with this volume. Time is also of the essence failure to offer the LTC extensions could jeopardise the planned investment at

#### **IV. Any other proposals**

We could consider offering all our standing sale merchants a base volume in a long term contract agreement at maybe 50% of their historic trading levels. This offer would have to focus on delivery of the thinning programme. Giving some assurance that there would be some investment in thinning equipment, where it is currently required. Potentially the thinning volume could rise from the current annual figure of 190,000m<sup>3</sup> obs to some where around 350,000m<sup>3</sup> obs we have to point the market in this direction if they want continued supply of material. This would also help to maintain our fragile standing sales customer base which is dominated by three large players, and

We should not ignore the part the private sector should play in ensuring that this development goes ahead, NRW could facilitate a co operative approach from the private sector to guarantee a log supply to the sawmill. This will have the effect of increasing confidence for the board to sign off the investment proposals at | and guarantee that private growers have access to market at an assured price. Initial contact with growers in Wales has been positive although wary of making firm commitments.

#### **7. Recommendations and decisions**

It is essential that the proposed development at is secured for the good of the growers in Wales and the Marches as the new facility will substantially increase milling capacity for short length and small diameter logs in Wales where the only current high capacity is at

To deliver this development the company has requested that they have continued assurance for volume from NRW via retaining existing long term contract agreements for spruce and entering into further agreements for larch.

There is no easy decision or option here and we recognise that some parties will feel disadvantaged by whatever option we choose

However and as time is now of the essence we recommend option 3 in order to secure a prime objective of a disease management solution in the face of year on year growth of the Phytophthora ramorum disease spread across Wales

This will entail offering to the following in outline:

- NRW should agree to extend the current spruce supply contracts that equate to 64,000 tonnes of log bar material through both the standing and roadside methods of sale. NRW will have to decide which areas are best suited to deliver the contracts as the current commitment for 30,000 tonnes of standing harvester forwarder spruce wood in Coed Y Cymoedd forest district would be impossible to maintain whilst the larch contracts are being delivered in that area. Coed y Mynydd would seem a more likely option or splitting the volume between Llandovery FD and Coed Y Mynydd FD, to boost the production in the Tywi block. This volume should be offered in full for a further 5 years and wind out for further 5 years (as shown in Table 3)
- NRW should offer 65,000 m<sup>3</sup> obs of standing larch in Llandovery FD to be worked by this offer could be extended to a 10 year offer and moved north as the disease progresses through out Wales. To allow to harvest all three larch LTCs would be high risk for NRW, by firstly expecting the company to double current trading within 12 months and secondly by weakening strongest competitor in the Welsh market. This contract should be offered in stages reaching full volume once the new facility is fully operational.
- NRW should offer to underpin the standing sales offer with direct production material to a maximum larch log and bar total from the public estate of 55,000 tonnes per annum, this could commit 25,000 tonnes of log bar production arising from larch felling work in the western forest blocks of Llandovery FD and any larch arising from sanitation felling in the northern forest districts. Full volume would not be offered until the new mill becomes fully operational. This commitment should reduce after five years by 5000 tonnes per annum. The released volume being offered on the open market.
- NRW should accept that may sell a share of the sawlog and bar volume derived from the contracts they have secured in Coed y Cymoedd FD, this will be a decision to be made between the two parties involved.
- NRW should continue encouragement for a commitment from the private sector growers for supply to via some sort of long term co operative supply agreement. This volume could be vital in securing the investment required for increasing processing capacity to add value to diseased larch in Wales and the Marches.



- NRW should allow other Long Term Contracts to come their natural end so we can reposition our commitments and deliver future objectives, increased levels of thinning for example. retain their LTCs as they have committed to develop an important increase in capacity for small diameter short length log in Wales. Allowing contracts to end will release 67,000 m3 of standing timber and 15,000 m3 of spruce sawlog back to the market over the next 2 years.

## **8. Communications**

Once the decision on which way we are to go with our marketing for the next few years and we have assurance on the levels of spruce, other conifer and larch in the programme we need to engage with individual customers, trade bodies and private sector growers and our own staff within WHaM and a wider audience. This can be achieved by;

- Holding a trade liaison meeting for our customers
- Arranging a series of one to one meetings with customers
- Holding meetings with trade bodies and growers representatives
- Updating the Web site to reflect the plan and the effects it will result.
- Updating the Marketing Strategy to reflect changes, spring 2014
- Ensuring that WHaM Staff are well briefed with the changes to programme and the marketing of the programme.

## **9. Assurance**

### **10. Terms and Conditions of a future contracts**

- Contracts must contain milestones for the investments that have been promised in both harvesting and processing capacity. Failure to carry out the required investments will be a serious breach of contract and will bring about termination if not rectified.
- Contracts must contain the harvesting and haulage price matrixes that will determine the costs for jobs that are to be negotiated. They must contain the offer prices and indicated volumes to each of the customers mentioned in the bid.
- Contracts must contain the pricing review matrixes that were submitted for each product and for the tracking and review of harvesting and haulage costs



- Contracts must contain the quoted figure for contract management and the profit element to be used in negotiation for timber parcels.
- Contracts must commit contract holders to install the correct levels of contract management and site supervision on or before commencement date.

## **11. Risk assessment**

- NRW could be criticised for only extending the current long term contracts to the supply with spruce through their direct and co owned contracts, this can be managed and justified by securing the investment proposed for
- The loss of the development at will condemn at least 15% of the current larch crops in Wales and the Marches into lower value markets over the next 12 years. Some processors may chose to invest further in adding value or increasing capacity in larch but currently there are no other offers on the table.
- That rely wholly on NRW to back their investment plans which could alienate the private growers.
- That there will be very little spruce to offer standing sales merchants over the next five years and any increase is mostly likely going to have to come from long term contracts delivering the increasing thinning programme.

## **12. Benefits**

By supporting the proposal we will ensure that

- A much needed development for maximising value of poorer quality larch timber is installed.
- Over capacity for processing larch is increased for the benefit of both public and private owners.
- The opportunity to penetrate the house building sector with wood grown in Wales is further improved.
- There will be stability in the market as the amount of larch infected by Phytophthora Ramorum increases as the disease spreads north and east through Wales and the Marches.
- The building of the new mill at will also create a value market for minor species in the longer term as the company will

increase input of other species once supply of larch material starts to reduce.

Appendix 1: Map of Forest Areas

Appendix 2: Map of current larch infection and Control Area