WESCORP HOLDINGS PTY LTD
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"Exporting sandalwood to the world"

Sandalwood Market Report
2007

Wescorp Holdings Pty Ltd,

Wescorp have been involved in the sandalwood industry since 1994 when they were appointed as the processing and marketing agent for CALM in Western Australia. Wescorp continue to be the agent for FPC and during this time have processed and marketed over 25,000 tonne of Santalum spicatum sandalwood.

In order to gain better knowledge of the total sandalwood industry, Wescorp started trading in other sandalwoods from other parts of the world from January 2005.

With the gradual downturn in world supply of sandalwood, the volume of sandalwood handled by Wescorp is over 50% of the total world traded sandalwood each year. The executive chairman, Mr Tim Coakley has been actively involved since 1994 and the Wescorp Sandalwood manager, Mr Norman Butler has been involved since 1995.

Wescorp sell sandalwood products to UK; Europe; Canada; USA; Southern Africa; Middle East; India; All of South East Asia; Japan; and China. Many of the relationship with the customers actually existed before 1994 with other products the Wescorp group were selling at the time.

Sandalwood Producers of the World,

INDIA;
Sandalwood from India has always been the benchmark to measure other sandalwood from. It is often referred to as "Old Mountain"; "Lau Shan"; or "Mysore Sandalwood". The botanical name is Santalum album and it grows from India through south East Asia, and has even been introduced into Fiji in the wild.

Where 12 years ago, it was estimated that around 12,000 tonne was being harvest from India alone, it is now down to around 1,200 tonne per annum. What is being harvested now it is immature and not a true representation of the original "Mysore Sandalwood".

The Indian Government have only recently set a structure where plantations can be established in India and last year the first ones were established. About 80 to 100 hectares was planted. In the Assam area they have been planting longer with the Aquilaria but these are more a "garden plantations" than commercial ones as we know them.

South East Asia;
Most of this resource has been eradicated in the last 10 years, and is generally illegally harvested. The trees are generally the S. album and there may be between 400 and 500 tonne in total from this region in any one year now. The supply is very erratic and the quality, risks and dangers very from time to time.

Attempt to re-establish sandalwood have been tried in many areas, but have generally been discarded due to grazing pressures and security of product being stolen just before it is mature for harvest.

PNG;
PNG has sandalwood, but the risks for life and quality of product are very high. We estimate about 200 tonne comes from here every year that is real sandalwood and a further 600 tonnes is harvested that is false sandalwood with little market value. The tree is S. macgregorii and it ranks fourth on the value scale.

Re-establishment does not exist, however trials have been carried out in northern Queensland for some time and there is enough research completed in Queensland to establish plantations of this species if they wanted to.

Queensland;
Harvesting is Government controlled, poorly, but they harvest between 300 and 500 tonne of sandalwood per annum. Six years ago they were harvesting 1,000 tonne per annum but the pressure on the diminishing resource has forced them to cut this back.

The variety harvest in Queensland is ranked sixth on the value scale and is known as S. lanceolatum. DPI has done many re-establishment trials and these have been very successful, but it has not been taken up for commercial plantations. There is illegal harvesting in Queensland and these figures have been included it the totals.

Pacific;
This resource is poorly managed and harvesting over the centuries has always come in waves. It seems to be a 30 year circle and we are currently coming to the end of one of those circles now. The two varieties that grow in this region are S. yasi which is ranked second on value to S. album and S. austrocaledonicum which is third ranking.

Garden and commercial plantations are being established in this region and propagation is very popular in many of the villages throughout the region now. The oldest commercial plantations are over 10 years old now but not really very big. Larger plantings are expected in the next few years and they are using their own varieties.

There are many false types of sandalwood in this region and trading has its risks. We estimate that about 400 tonne is harvested per annum from here.

Western Australia;
S. spicatum has been harvested from WA since 1845. All wild S. spicatum is vested in the State and harvesting is strictly controlled. This sandalwood is ranked fifth for value on the world market and the only species that is being harvested in sustainable manner in the world. Forest Products Commission (FPC) is responsible for the harvesting, re-establishment, and research for this sandalwood.

Western Australia has S., lanceolatum sandalwood resource; however this is not being harvested.

Approximately 2,100 tonnes of sandalwood is harvested annually by FPC and private licensees. Two thirds of the product is green and the balance is dead wood. One third of the harvest is used by oil extraction processors to obtain sandalwood oil which they market independently and of the balance, 90% is processed into powder or pre-grind for markets to use in the agarbatti industry.

Re-establishment of S. spicatum from the wild harvested areas has been successful and strict processes have been put in place and supervised for this to continue. Commercial plantations have been established since 1999 and WA leads the world in volume, quality, research and knowledge of sandalwood plantations.

Uses for Sandalwood;

Carving Logs;
This is the premium market for all sandalwood species and it is generally used as the benchmark for comparing the value of different species. It is used for religious statures, fans, beads, in-lays of furniture or ornamental show pieces.

The general specifications for this product are as follows;

De-sapped, totally clean heartwood logs with a smooth surface, with a minimum diameter at the smallest end of 10 cms. The minimum length of 30 cms and be no longer than 1200 cms. Must be circular and have no hollows, cracks, knots, and be entire. All sapwood must be removed so there is only good heartwood. Ends will be sealed with a clear end sealer product.

S. album, yasi, austrocaledonicum and macgregorii are the only sandalwoods that are suitable for this market at the moment, but we expect the plantation S. spicatum from higher rainfall wheat belt areas to develop this product in the future. About 200 tonnes of carving log is sold per annum throughout these species.

The market is always finding new types of wood that they can use to substitute this product in the industry due to the short and ever decreasing supply. The potential for this market could be up to 1,000 tonnes per annum.

Sandalwood Oil;
The majority of all roots, butts, and logs of green trees from all sandalwood except S. lanceolatum are channelled to the oil extraction in different parts of the world. It is used for parts of formulas for perfume, chewing tobacco, medicines, aromatherapy and other cosmetic products.

Due to the decreasing supply, this has become a dangerous market for synthetics, and substitutes being utilised in the industry. A significant threat at the moment is the “East African Sandalwood” oil that they are blending with S. album oil. There is approximately 1,500 kgs of this getting into India alone each month. This is not a Santalum species, but it has been around for centuries at the cheaper end of the scale.

Prices reached a peak in 2005 and since then they have decreased by 50%. Recently the focus of the end users has been to consider sustainability of the particular oil before anything else. All species have suffered except S. spicatum. This has remained stable and demand has increased for this inferior product due to sustainability.

In the last 10 years, oil production throughout the industry has moved from 300 tonne per year to about 120 tonne currently. Demand for the oil in aromatherapy is growing and this is anew industry for this product. WA currently produces about 12 tonne.

The development of very good synthetics has really put a ceiling on the price of the sandalwood oil for the future. Natural will always be a premium, but not too high over the synthetic oil.

Agarbatti Industry;
We must understand that if you take the carving logs out of the equation, the balance of the sandalwood products all gets burnt. Even after the oil is extracted from the high quality sandalwood, the remains is mixed into powders and used in this agarbatti industry.

Agarbatti is a very large industry and involves the manufacturing of joss sticks, cones, coils and other burning products for both religious and aromatics uses. We believe there is probably 500,000 tonne of timber that goes to this industry every year and yet only 5,000 tonne of this is sandalwood. The vast majority of the timber is yellow and red cedar with synthetic oils added to the mix to produce the desired sandalwood or other aroma.

As the consumers become more affluent and move towards more natural products and more true sandalwood products become available, the size of the potential market for agarbatti is enormous. Even if we increase the production of sandalwood 10 fold to 50,000 tonne per year, it is still only 10% of the current consumption.

The price is going to always be a significant influence in the agarbatti industry, as this will always compete with synthetics and substitution. Wescorp consider agarbatti to be the lower end of the market and will always be very price sensitive, however the market is there to be supplied.

Plantations of Sandalwood in WA;

Santalum spicatum;
Fortunately large areas have been planted and established in Western Australia since 1999. WA leads the world in sandalwood plantations. The single most significant advantage that WA has with S. spicatum over all the other sandalwood is that the wild sandalwood is sustainable and will remain in the market place for as long as we choose.

Continuity of supply is vital so that a market remains able to recognise the S. spicatum to the future particularly while the plantations grow towards maturity. The jury is still out on the value of the plantation sandalwood compared to the current wildwood prices and quality, but we believe the longer it is given to mature before harvest, the better the quality and price will be.

Further development on product development of the S. spicatum seed is very important. WA sandalwood has this unique advantage over all other sandalwoods. Plantation owners will be able to have an income from the seed for the life of the tree while it matures to a quality harvestable age.

If you require any further information, please do not hesitate to contact me.

Tim Coakley
Executive Chairman
6th July 2007