



## Sandalwood grower smells a fortune

SYDNEY -- From luxury French perfumes such as Chanel No. 5 and Yves Saint Laurent's Opium to the humble incense stick, from traditional Chinese medicine to modern pharmaceuticals, and from Hindu and Buddhist religious carvings to fine furniture, there is a common ingredient -- sandalwood.

For thousands of years, richly scented sandalwood has been traded across Asia, the Middle East and Europe. Caravans from India carried its precious heartwood and oil to ancient Egypt, Greece and Rome. Today, the sandalwood trade spans the world, but a guaranteed supply is a big issue.

The best variety of sandalwood is judged to be Indian (*Santalum album*), which grows mainly in the southern Indian states of Karnataka, Kerala and Tamil Nadu. It can also be found in parts of Indonesia. But illegal harvesting of wild trees, coupled with surging global demand, has endangered Indian sandalwood to the point where it is now in short supply and is the world's most expensive tropical hardwood. TFS, an Australian company, wants to change that situation.

TFS says it is already the world's "leading grower, producer and seller of Indian sandalwood," with annual production capacity in Australia of 2,000 metric tons. Over the next decade, it aims to supply key markets in the Middle East and Asia with as much as 300 tons annually of the valuable heartwood and associated oil.

The company cultivates millions of trees on plantations across northern Australia. There, a sandalwood tree takes about 15 years to reach maturity and produces about 20kg of heartwood. Much older trees in India can produce 80kg of heartwood after 50 years of growing.

By the middle of next year, China should be a key customer for TFS. "We expect our first sales of both wood and oil to China before the end of the 2015-16 financial year" through next June, TFS founder Frank Wilson told the Nikkei Asian Review. "We are dealing directly with potential customers, including fine furniture makers and companies in the traditional Chinese medicine sector." 10,500 hectares and counting

Australia has been shipping sandalwood to Asia since the 1840s, when it began exporting its much cheaper native variety (*Santalum spicatum*) to India, China, Hong Kong, Macau and Taiwan. The wood was used in furniture, cosmetics, religious statues, Ayurvedic medicine, Chinese traditional medicine, incense and cremation ceremonies.

Australian sandalwood has a lower oil content than the heavy Indian type and, today, commands only about a tenth of the price. Global demand has shifted toward Indian sandalwood; more than half of all output of the yellow-hued timber is used in worship ceremonies.

TFS started planting Indian sandalwood trees 15 years ago in Western Australia and now manages more than 10,500 hectares of plantations spread across the East Kimberley region of Western Australia and the Northern Territory, plus the Burdekin region of north Queensland. That equates to about 4.6 million trees. About a third of these trees are owned or part-owned by TFS, with the remainder belonging to a range of investors, including Harvard University, the Abu Dhabi Investment Authority and the Church Commissioners of England.

The company plans to increase its plantations in East Kimberley's Ord River area near Kununurra, with a goal of having 25,000 hectares of the valuable timber under drip irrigation by 2025. TFS completed its first commercial harvest from East Kimberley in 2014. This past May, it carried out its second harvest from trees planted in 2000, with an expected yield of about 31 tons of heartwood.

Wilson founded the Perth-based company in 1999 after successful government trials growing Indian sandalwood trees in the sprawling Ord River Irrigation Area in the northern part of Western Australia. TFS also owns the world's largest commercial sandalwood oil distillery at Mount Romance, near Albany, in the southern part of Western Australia.

Last year, TFS struck a long-term supply agreement with the Swiss dermatology company Galderma, owned by Nestle, to supply pharmaceutical-grade sandalwood oil at about \$4,500 a kilogram. Galderma uses the oil in its Benzac anti-acne treatment. And in August this year, TFS completed purchases of two U.S. pharmaceutical companies, ViroXis and Santalis, which are developing products containing sandalwood. TFS already held 50% of Santalis.

Wilson, a former Perth lawyer with a family background in agriculture and forestry, said that while TFS previously benefited from oil sales to the companies, the acquisitions, which carry a minimum price of \$23.4 million, meant it would also capture all future product earnings generated by them, "thereby significantly enhancing our own earnings."

### **Growing profits**

TFS ranks as Australia's fifth-largest listed agribusiness with a current market capitalization of about 520 million Australian dollars. Wilson owns 15% of the company.

On Aug. 31, TFS reported a 37% increase in net profit to A\$113 million, well above its previous profit guidance of A\$90 million. Its cash earnings of A\$151.2 million came from wood and oil product sales, and from establishment fees and management fees through operating managed investment schemes. TFS said it expected cash earnings would grow by another 5% to 10% in 2016 on the back of higher sandalwood prices and a weakening Australian dollar. According to the company's results presentation, 2016 will provide the "first meaningful harvest" and lead to the business operating at scale. It will be the "first opportunity to supply certain important end markets, including China."

Wilson said the company's objectives are squarely focused on heartwood and oil sales. Along with China, it regards India and the Middle East as "highly prospective" markets. "Absolutely, we expect to have Middle East contracts in place by mid-2016," he said.

Wilson added that Japan is also a great potential market for TFS, though not right away. "It's a big target that we'll get to in a few years," he said. "Our target customers there primarily would be in the fine fragrances and cosmetics industries."

As for Australia's native sandalwood, it was once widespread in Western Australia, but aggressive harvesting and land clearing for wheat farms almost wiped it out in the wild. Today, natural stands of Australian sandalwood are protected, but there are no restrictions on plantation trees, allowing companies such as Perth-based WA Sandalwood Plantations to be active in the industry as well. In 2011, WA Sandalwood established what it then said was the world's single largest plantation, with 5 million Australian sandalwood trees on 2,200 hectares in the central wheat belt region of the state, about 200km southeast of Perth. It said the trees would be ready for harvest in 15 to 20 years. Overall, it manages about 10,000 hectares of plantations.

Read more: <http://asia.nikkei.com/Business/Trends/Sandalwood-grower-smells-a-fortune>

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