



This Sandalwood Plantation Is About to Make Its Owners a Lot of Money

Australia is challenging India's dominance in exports of the aromatic wood

In a climatic sweet spot running across the far northern Australian outback, 15 years of patience may be about to pay off for two of the world's biggest growers of plantation sandalwood trees.

The parasitic trees—prized for their aromatic wood and essential oil that's used in perfumes, cosmetics and medicines—are approaching maturity, more than a decade after they were planted. The trees are maturing just as prices soar amid a production shortfall from the biggest producer India and rising demand from China. A kilogram of Indian sandalwood oil now sells for about \$3,000, or about five times as much as silver, and prices are rising by at least 20 to 25 percent a year, according to the South India Sandalwood Products Dealers & Exporters Association. That makes the mature trees on the Australian plantations run by TFS Corp. and KKR & Co.-backed Santanol Group worth about \$1,500 apiece.

"You have a fundamental supply demand imbalance," TFS Chief Executive Officer Frank Wilson said in an interview from Perth. "We are a price maker."

Global demand for sandalwood is set to gain five-fold to 20,000 tons of wood a year in the decade to 2025, according to TFS, the largest plantation operator in Australia. China will account for half of the increase, where it's used in traditional medicines, handicrafts and fragrances. That comes as M. M. Gupta, the honorary secretary of South India Sandalwood Products Dealers & Exporters Association, says supply of legally sourced sandalwood from India is limited partly because of government restrictions on production and exports.

"The business can be very big," Remi Clero, the CEO of Santanol, said by phone from Paris. Santanol currently sells the oil for just under \$3,000 a kilogram, which Clero said "corresponds to a long-term price."

India has historically been the dominant supplier but sales from government auctions plunged in recent years due to over exploitation and smuggling, according to [papers](#) presented at a Food and Agriculture Organization conference in 2011. Centuries-old restrictions that made all sandalwood government property in India also severely discouraged private growers, Gupta said in an e-mail response to questions.

Santanol's plantation at Kununurra, on the border of Western Australia and the Northern Territory some 3,000 kilometers (1,900 miles) from WA's capital, Perth, will be among the sources filling the gap, Clero said.

Sales of sandalwood sourced illegally from natural forests in India are estimated to dwarf official production, which was mostly state-controlled until the middle of last decade. Supply from India remains variable and fell to just 250 tons of wood a year in 2016 from almost 4,000 tons a year in

1970 and more than 1,300 tons in 2002, according to government data. That variability increases the attractiveness of plantation supply.

"When you create a fragrance, a formula, you need to be able to give to your customers a consistent product," Santanol's Clero said. "They need to be able to do deals with companies like ours for 10 years or more of guaranteed supply."

India isn't standing still, however. The government of Karnataka, one of the largest growers of sandalwood in India, is backing cultivation in a bid to rebuild supply. Some 470 farmers have so far joined up to the plan covering an area of more than 2,000 acres of land, according to the website of Karnataka Soap and Detergents Ltd., the state-backed company that oversees the program. That may pressure future prices of both sandalwood oil and timber. A fifteen-year-old tree produces about 500 milliliters of oil, according to Clero.

"Australia will capture share of the Indian sandalwood market for another 10 years," Gupta said. "Cultivators should have the free hand in cutting and sale/export, since they have to conserve and protect sandalwood for over 15 years. There will be no theft and illegal smuggling since the farmers can help themselves in protecting the property as they are doing for other crops."

Currently there are about 6,000 acres of sandalwood plantations in India, and the area planted is increasing by more than 2,000 acres a year, Gupta said.

Still demand from new sectors, dwindling Indian output and the difficulty of replicating the maturing Australian plantation trees, has TFS confident in the future.

TFS plans to increase output 30-fold to 10,000 tons of timber a year from its 30,000 acres of plantations located in a strip of land running through the northern parts of Western Australian, the Northern Territory and Queensland. "It is very beautiful, rugged, high rainfall, very fertile area," Wilson said. "It's an oasis in the desert."

The company manages about 5.4 million trees maturing at different stages and completed its first commercial harvest in 2014, according to its website. The trees, which need a host plant to help them get water and other nutrients from the soil making them semi-parasitic, are harvested whole. TFS uses almost the entire tree, selling oil—that it refines at its Mount Romance distillation plant—as well as wood chips, wood powder and resins.

Santanol manages about 2,200 hectares of sandalwood in Kununurra. It first harvested trees in 2014 and is selling "tons" of oil a year, said Clero who declined to give more detail.

The biggest growth in demand will come from pharmaceuticals and TFS is in the process of developing dermatological products to treat conditions including acne and psoriasis.

"There's not a business in the world where good economics don't attract competition and we'll be the same," Wilson said. "But there are many barriers to entry because it takes a long time to grow, it's a difficult crop to grow and there's a narrow band of geography where it can grow."

Wilson, a former lawyer and also TFS's largest shareholder, said revenue will grow more than tenfold to \$1.5 billion by 2025.

TFS, founded in 1997, sold shares to the public in 2004 at 20 Australian cents each. They have risen about seven-fold since then. Its customers include Estee Lauder Cos, which uses sandalwood oil as a base note in its Pleasures brand perfume.

"We need a lot more customers to absorb the supply but they are not very hard to find," Wilson said.

Source: <https://www.bloomberg.com/news/features/2017-02-21/australian-sandalwood-plantation-is-about-to-make-its-owners-a-lot-of-money>

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