



**SUBMISSION TO COALITION
'INDUSTRIES FOR AUSTRALIA'S FUTURE' REVIEW**

The Australian Forest Products Association (AFPA) appreciates the opportunity to provide a submission to this review. AFPA was formed in April 2011 following the merger of the Australian Plantation Products and Paper Industry Council (A3P) and the National Association of Forest Industries (NAFI). AFPA is the peak national body representing the integrated forest, wood and paper products industry, comprising forest growers, harvesters, solid and reconstituted wood processors and pulp & paper manufacturers. Our members contribute significantly to the Australian community in a number of important ways, as detailed below.

The challenges facing the Australian forest, wood and paper products industry have been looked at in detail recently in the House of Representatives' inquiry into the Australian forest industry, and the Pulp and Paper Industry Strategy Group (PPISG), which presented its findings to Senator the Hon Kim Carr in March 2010. The recommendations of the Strategy Group¹ and their underpinning principles form much of the basis of this submission.

Size and significance of wood based manufacturing in Australia

A key feature of wood based manufacturing in Australia to date has been the historically high level of integration between the supply of domestic forest fibre and downstream processing. Due to the high level of integration, any impacts in one are of the supply chain have flow-on impacts across the whole integrated forest, wood and paper products sectors.

The gross value of turnover in the forest products industry was estimated at around \$22 billion in 2009 (ABARES 2011). In terms of value adding - as a direct measure of the industry to gross domestic product - the forest industries contributed \$7 billion in 2008-09, representing around 6.7 per cent of the total manufacturing sector (ABARES 2011).

¹ The full report and recommendations of the PPISG can be found at <http://www.innovation.gov.au/INDUSTRY/PULPANDPAPER/PPIIC/Pages/PulpandPaperIndustryStrategyGroupFinalReport.aspx>

Total employment in 2010 is conservatively estimated as 75,800 people, based on the Australian Bureau of Statistics employment categories of: forestry and logging (~10,000); wood product manufacturing (~45,000) and paper and paper products (~21,000). The total number of people employed in the forestry and wood products industries, based on a wider survey of businesses dependent on growing and using wood, is estimated to be about 120,000 people (Table 1 – see Appendix).

The main outputs of the industry are sawn wood (4.73 million m³), paper and paperboard (3.28 kilotonnes) and wood based panels (1.78 million m³), with a total log harvest of around 25 million m³ in 2008-09 (ABARES 2011).

The industry is also significant in its geographic spread and significance to the economic and social well-being of many rural and regional communities, through local growing, harvesting, processing and marketing of forest products and flow-on effects to other suppliers. The major forestry, wood growing and processing regions generally correspond with the National Plantation Inventory regions (refer Map 1 – Appendix).

In many regions the forest, wood and paper products industries comprise a large proportion of the regional economy. It is evident that the forest industries contribute significant national and regional level economic and social benefits to Australia. While many of these benefits can be quantified in tangible measures (e.g. employment, output), a suite of other social benefits are less amenable to quantification, such as the maintenance of social capital, environmental benefits, flow-on effects to community institutions and activities from having viable rural industries.

Challenges for the Australian Wood and Paper Products Industry

AFPA welcomes the opportunity to provide feedback to this review as it comes at a very significant time for the forest processing industries, and the manufacturing industry in Australia more generally. The commercial environment for the forest manufacturing industries has declined in recent years as a result of a number of factors, including:

- high cost of capital (interest rates), labour and other inputs;
- escalating energy prices
- recent fall out of the GFC and fiscal tightening;
- relatively high Australian dollar and competing imports;
- long term nature of forestry investment (i.e. time value of money); and
- difficulty in reflecting the social benefits of forestry investment in commercial transactions (which has been characterised as a market failure).

A significant issue has been the lack of investment in new long rotation plantations since the late 1980s. The associated lack of scale in resources has led to additional challenges to the international competitiveness of the downstream processing sectors.

Furthermore, Australian wood and paper production competes against international production in both domestic (via import competition) and export markets. Economic globalisation has increased this competition. Australia's commercial environment is completely exposed to international trade; key issues contribute to creating an unequal playing field for domestic producers. These include dumping and predatory pricing (and associated problems with Australia's anti-dumping and countervailing systems), and the potential importation of illegally logged forest products. Action is required in key areas to support the expansion of our sustainable forest and forest products industry by making it globally competitive. These include:

- improving market access for domestic and export markets;
- recognising the full range of climate change mitigation benefits of the forest industry, including the substitution benefits of forest products, and carbon storage in growing forests and harvested wood products;
- establishing effective mechanisms for investing in plantations for future fibre supply and related benefits;
- promoting the multiple benefits of sustainable forest industries, through better public communication and awareness programs;
- improving research and development and skills training; and
- developing essential infrastructure for key forestry and processing regions.

In this context, a coordinated national strategy should build on the PPISG recommendations and recent findings of the House of Representatives' review into the Australian Forestry Industry, developing a coordinated national strategy for growth in the forest industries.

Productivity improvement in manufacturing

Productivity improvements are an important factor in an industry's global competitiveness, especially in mature manufacturing sectors such as pulp & paper and engineered wood products in Australia. With its direct relationship to profitability, productivity is rightly considered the responsibility of private enterprises. However, where government imposes burdens on businesses via costly policies, it can act as a significant barrier to productivity by raising costs and reducing international competitiveness. This can lead to reduced profitability and domestic industry contraction, as well as reduced investment in innovation and research, coupled with difficulty in securing capital to develop new or upgrade existing facilities.

With rising utility costs – in particular energy – Australia is losing the backbone of its competitive advantage in many manufacturing sectors, including pulp & paper, sawmilling and engineered wood product manufacturing. While finding productivity gains should continue to be the role of the private sector, efficient and sensible government policy has a role in creating and maintaining an enabling environment for finding productivity gains. These include, but are not limited to:

- A sensible anti-dumping system, streamlined to achieve fairness and equality for all competitors. This should include a system of information disclosure and corrective measures in the event it is not followed, which would promote parity for all competitors. The current system favours importers in two ways: firstly, by requiring domestic producers to prove dumping is occurring, usually without importers' cooperation and at significant expense; secondly, due to the ineffectiveness of the system, which can take so long to return a ruling that the damage sustained by injured parties is lasting in its effects.
- An effective framework to inhibit the importation of illegally harvested timber (and products made from such material) into Australia, which acknowledges certification of domestic timber and timber products without imposing additional red tape.
- A carbon pricing policy that provides sufficient measures to maintain the competitiveness of trade-exposed industries including pulp & paper, engineered wood products and solid timber manufacturing; and that recognises the carbon stored in forests during growth and wood products after sustainable harvest.

The PPISG process also highlighted measures that should be introduced to increase the industry's competitiveness, such as;

- Fostering the industry's innovative capabilities;
- Making transport more efficient;
- Improving planning and approval regulations
- Addressing trade-distorting factors and ethical procurement policies for government
- Providing adequate skills training to ensure that Australian workers are well equipped to meet the needs of a growing industry.

Industry Capability Network (ICN), Enhanced Project Bylaw Scheme (EPBS), Australian Industry Participation (AIP) plans and procurement processes

Paper and wood products are internationally traded commodities. Australian manufacturers of these products face significant international competition in both export and domestic markets. Furthermore, the domestic production of these goods are resource and investment intensive processes conducted in large processing plants, often based in rural

areas. To remain internationally competitive domestic producers must continually invest in new and upgraded processing facilities, but will continue to be subject to strong competition within all the key paper and wood product markets.

Various AFPA member companies have in the past (and intend to in the future) utilise the EPBS. These companies are grateful for access to these arrangements, and the continued presence of the EPBS. The ability to readily access low cost equipment, structures, and services is vital for the viability of our members' domestic manufacturing operations. AFPA strongly supports the continuation of an effective, efficient, and accessible EPBS in order to support a level playing field for Australian industry.

Skills upgrading opportunities

Forest and forest products industry jobs are located mainly in rural areas, and are especially concentrated where there is an integrated plantation products sector — plantation growing, management, harvest and haulage, supplying sawmills, veneer mills, landscape products, engineered wood products, pulp mills and paper manufacturing, secondary manufacturing, and utilising sophisticated transport and logistics systems.

The industry offers a diverse variety of careers, from skilled and semi-skilled labour, plant and equipment operators, a wide range of technical trades and clerical positions, to graduate careers. Many more jobs are created in support businesses, contracting and service industries. Despite these diverse career paths, the industry, in common with much of Australia's economy, is suffering skills shortages, intensifying since the rapid expansion in the mining sector. The problem is keenly felt in this industry because of the difficulty of attracting employees to move to and settle in the rural and regional locations where most of the industry is based.

In view of this shortage, parallel initiatives for industry innovation are needed for career and skills initiatives that attract new skilled workers to the industry, retain existing workers in the industry, and ensure workers are increasing their skills commensurate with evolving technology. In this respect, AFPA acknowledges the valuable role played by Forestworks to develop and implement career and skills initiatives that focusing on the increasing need for skilled workers in all aspects of the forest, wood and paper products industry. In addition, measures that support career opportunities in the forest based industries would assist in addressing labour shortages for skilled workers.

Encouraging growth and development

The Terms of Reference make special mention of “knowledge-intensive” manufacturing industries in which Australia can sustain a competitive advantage. The Australian forest, wood and paper products industry is increasingly “knowledge-intensive”, undertaking ongoing modernisation and employing a highly skilled labour force. These changes have occurred as a result of evolving markets and opportunities for innovation in such important areas as bioenergy and recycling.

These valuable employment opportunities, often in rural and regional Australia, have been dwindling in recent years. However, targeted growth policies may not be effective in remedying the ills causing this gradual decline (which is common to many manufacturing industries in Australia). The problem has not been “anti-growth” policies as such, but rather a cumulative burden of indirect consequences of other policies. Before growth and development can be encouraged, the trend of contraction must be arrested through holistic, whole-of-government action. The forest and forest products industry faces a critical time, in which conditions must be improved or the industry risks long-term decline. Many policies have led to this situation, for example:

- Ongoing restrictions on native forest harvesting – the available area for harvesting has declined severely over the past two decades, while demand for forest fibre has strengthened. Where demand cannot be filled by sustainably harvested domestic timber, it is met with imports whose environmental credentials are sometimes unclear. This has a flow-on impact on employment and the availability of skilled workplaces.
- Significant energy price increases associated with the exercise of generator market power and the lack of interconnector capacity, increases in network transmission and distribution costs, requirements for additional transmission networks for increased renewable energy, demand for additional base-load energy to underpin renewable energy coming online, and a changing policy dynamic in relation to the costing of network extensions.
- The overabundance of emissions/carbon/energy related policies, at both State and Federal level. It is difficult to estimate a cost impost because their nature and impact differ across the country, however it is clear that these policies represent a significant burden to businesses. Often there are programs covering the same area at different levels of government (e.g. State and Federal energy efficiency schemes), with different reporting requirements and associated costs. Australian industry has long called for these programs to be streamlined – an even greater imperative after 1 July 2012 and the introduction of the carbon pricing scheme.

Minimising sovereign risk

One of the most effective strategies for minimising sovereign risk is for the government of the day to provide stable institutional frameworks and curtail its direct intervention in markets. Industry in general is adept at dealing with factors such as fluctuating exchange rates and the costs of capital investment, because the rules which govern these factors are well-established and markets have arisen for risk-minimising financial services to assist hedging and forward planning. However, in recent times we have seen more markets created by legislation, and it is in these areas that the government can most profoundly influence sovereign risk. While it may be necessary to adjust the rules of such a market occasionally, this process should be well-planned and changes should be gradual or preceded with a reasonable 'warning period' (ideally such provisions should be embedded in the original legislation that establishes a market).

An example of an unhelpful intervention in an artificial market was the 2010 change to the Renewable Energy Target (RET) Scheme, only one year after the original legislation had been replaced and the '20% renewable energy by 2020' target introduced. The second change to the RET split the scheme into large and small scale components. This change was reactionary –decided on and enacted very quickly, with little forewarning. It was designed to provide certainty to investors in large-scale renewable electricity ventures, but it did so at the expense of consumer certainty and had a destabilising impact on the RECs market. While not responsible for lasting and permanent damage in this instance, this sort of move should be avoided at all costs by governments. It will be especially critical for such institutional unsteadiness to be avoided in the carbon market that is to be introduced next year – the market will be much larger, and therefore the stakes much higher.

Removing/streamlining 'red tape'

Bureaucratic red tape is accompanied with many hidden expenses and often involves significant human resources and associated training. It is not uncommon for governments to underestimate the impact of compliance with regulatory impositions on businesses. While there are sound arguments for the existence of many regulatory frameworks circumscribing various aspects of conducting business, they should be designed with a view to facilitating compliance by imposing the smallest burden possible on businesses by removing unnecessary procedures and providing effective reporting facilities that are easy to use and enable businesses to submit information once, even if required by several agencies.

However, the first priority should be to remove unnecessary programs altogether. Once the carbon price is introduced, those programs that are superseded by it should be wound up as

quickly as possible. All remaining programs with similar reporting requirements should then be streamlined.

Other 'red tape' issues relate to response times by government agencies. In some cases, it is possible for agencies to significantly delay commercial activity with inefficient and confusing procedures, taking far more time than needed to follow due process and resolve requests. Requesting excessive information is also commonplace, which further adds to timing issues.

A standard justification given for inefficient management of red tape by agencies is government risk minimisation. While this is an understandable motive, it seems to be mistaken as the objective of these bureaucratic processes. The objective of any regulatory framework should be to implement the policy intent in the most efficient manner possible, recognising that the majority of stakeholders are law-abiding members of the community. While it is necessary for agencies to have the authority to pursue non-compliant parties, creating the whole framework to treat everyone as potentially non-compliant is unreasonable.

Some examples of red tape issues:

- Anti-dumping – after receiving a request for investigating a case of possible dumping from a domestic producer, Customs is not required to respond in a timely manner, and can take a year or longer to make any reply. This is a completely unreasonable timeframe, especially taking into account that the complainant may have a justifiable case and is suffering severe financial hardship as a result.
- RET partial exemptions – partial exemption applications are complex and require a vast amount of information. In some cases the Regulator returns to require further information that seems to be irrelevant (taking the maximum allowable time to make this request and thereby delaying issuance of entitlements). There is also no link with NGERS reporting, which should be set up considering the similarity of certain information requirements.

Impact of current government policies on competitiveness

At its most fundamental level, the forest, wood and paper products industry can play a significant role in the future of the Australian economy and society, due to its inherent renewability and multiple benefits.

As a biological system that relies on solar energy to produce a durable natural resource that can be sustainably regrown in perpetuity, the environmental benefits of forest growing and processing are significant, in addition to the direct socio-economic benefits of the industry.

However, the broad climate policy framework in Australia does not currently maximise these opportunities or enhance the long term competitive position of the forest, wood and paper products industry. This has created considerable uncertainty for current and new investment in the industry, and may erode competitiveness and provide perverse outcomes (e.g. by favouring less environmentally friendly materials, particularly from overseas).

Australia's suite of climate change policies should promote the natural advantages of growing forests and using wood over alternative products in the longer term. Economic theory tells us that in a 'perfect market' a price (or cost) on high emission products should encourage innovation and substitution to lower emission products. In the short term however, the design of such policies is difficult given the existence of 'imperfect markets', most importantly through carbon leakage, which can cause a decrease in domestic competitiveness and an increase in imports and emissions from overseas products without a comparable carbon cost. With respect to the carbon pricing legislation recently enacted in Parliament, this is a significant issue for domestic producers, who will be faced with higher energy and input costs while competing on international markets. The emphasis of the national policy on transitional measures to assist domestic trade-exposed sectors is therefore important, as well as ongoing international negotiations on country level action so as to provide as near as 'perfect' an international market as possible. The problem for most domestic producers is that the international negotiations for emissions reductions and comparable global action are very likely to take a long time to develop. Measures to maintain competitiveness will be essential until equality exists.

The carbon price being introduced next year is set to impact on the competitiveness of the Australian forest and forest products industry in the following ways:

- Emissions-intensive trade-exposed activities (which include pulp & paper activities) will receive partial permit allocations, but these are set to decay at 1.3% p.a. Competitiveness may suffer from this, whereas linking permit decay to progress on carbon pricing in other economies would be more equitable.
- Trade-exposed sectors that have not been classed as EITE activities (which include engineered wood products [under assessment] and solid wood) are not given any assistance even though they will experience significant increases in operating costs that will impact on competitiveness.
- Carbon stored in long-lived wood products is not recognised within the carbon pricing scheme. Additionally, the lower carbon footprint of timber compared with competing products (e.g. steel, concrete) will not be reflected in the market price because the carbon price will only be applied to domestically produced products, removing what should be a competitive advantage for wood products.

- Under the CFI, it will be very difficult to create carbon credits from commercial plantations due to the restrictive and complex rules, which is likely to result in many missed abatement opportunities.

Finally, a significant impact that government policies have is the associated hidden costs of compliance. Streamlining red tape would make a big difference, as would abolishing unnecessary programs and duplicative policies. There needs to be cooperation between State and Commonwealth levels to achieve this.

R&D and commercialisation

The provision of research and development (R&D) is critical to innovation, technology development and the long term international competitiveness of the forest industry (however it is important to note that remaining competitive in today's environment is an essential prerequisite to research and innovation). In 2007-08, around \$100 million was committed by governments and industry to forest industry R&D, including research into wood processing and wood products, tree genetics and forest management. However, the level of funding for R&D has declined in real terms by just under 1 per cent since 1981-82. Furthermore, AFPA is concerned about the downsizing and restructuring of R&D within many state and federal research agencies, including the CSIRO, which has effectively diluted forestry research capability and expertise. The lack of a critical mass of researchers needs to be addressed in the context of current and future expected research priorities. Given current and expected changes in resource availability from both native forests and plantations, research into improving the quantity and quality of wood resources will continue to be a high priority, in conjunction with value added processing.

While considerable effort has been directed into climate change research in forestry, there has also been the lack of a comprehensive approach that takes into account the net carbon footprint across the supply chain for key industries and forest regions. Such a framework would assist climate policy by taking into account carbon removals and emissions at each stage of the production and consumption process, including forest growth and harvesting, wood processing, product use (including substitution with emissions intensive materials and recycling) and post-consumer use (e.g. wood waste for bioenergy, storage in landfills).

Given the recent decision not to extend the latest funding application for the cooperative research centre for forestry, the industry is keen to discuss potential funding models to invest in future innovation in the forest and forest products industry.

To support ongoing R&D and innovation in the forest, wood and paper products industry, AFPA recommends the following:

- That Government review, in partnership with industry, the level of R&D funding for the forest industry, to improve overall capability and incentives for innovation and delivery of R&D.
- As a priority, fund research into the establishment of hardwood plantations for the production of high quality sawlogs and the commercial processing of those logs.
- Fund key research gaps in forest sector climate change mitigation, given its significant role in providing a low cost solution to emissions abatement. This would include an assessment of net emission reductions from key forest sectors and regions.
- Support the development of renewable biomass technologies, including woody biomass, with biomaterial and bio-energy technology providers and suppliers.
- Take appropriate and effective action to halt the decline in Australia's capacity in research, development and extension in the industry; restore lost capacity, particularly in CSIRO and the universities; and ensure industry can diversify and value-add, including by commercialising its Australian innovations.

Other issues raised by industry

1) Market access

The forest and wood products industry is determined to demonstrate its credibility in supplying fit-for-purpose products to satisfy the expectations of consumers who are becoming ever more conscious of the environmental credentials of their purchases. Thus it is of particular concern to the industry that wood products are enduring such a troubled journey to full recognition and endorsement of their ecological, energy and carbon benefits.

Well over a decade ago, an independent research project published a comparison of the energy and carbon balances in the production and use of the major structural building materials — timber, bricks, concrete, steel and aluminium. Not surprisingly, timber products had many times less impact on the environment than all alternative materials. Similarly, the value of the carbon stored in harvested wood products, especially long-lived building materials, has been well-known and acknowledged by governments during at least a decade of climate change policy negotiations.

It has taken years for the industry to even start to shift the thinking behind the energy efficiency ratings in the Building Code of Australia, and there is yet to be any official accounting for carbon in harvested wood products in Australia's carbon reduction policy response.

The next advance in the building regulations must be the adoption of Life Cycle Assessment, based on greenhouse gas emissions, not just energy efficiency. Whole-of-building life cycle assessment of direct and indirect greenhouse gas emissions can account for not only all the 'operational' emissions described above, but also the embodied CO₂ impact of the product manufacture, the building construction and demolition, and the end-of-life phases.

Timber's unique environmental benefits would be recognised under such a rating system. Trees absorb CO₂ and store carbon, and can be regrown after harvest. Timber products have a low embodied energy in manufacture, they continue to store carbon while in use, and can be re-used or recycled. And end-of-life timber can be converted to energy, in place of non-renewable fossil fuels.

The industry needs the Government to be more pro-active and urgent in ensuring its own policies do not discriminate against the use of timber products in diverse markets and thereby undermine the industry's own concerted efforts and campaigns.

2) Data collection, analysis and dissemination

For many years, the collection, analysis and dissemination of basic industry data and essential statistics was conventionally accepted as a legitimate and justified function of government — to guide and inform public policy formulation, implementation and monitoring, as well as industry planning and investment. It should be recognised that statistical data collection, analysis and dissemination for the plantation and plantation products industry as a public good, and makes a firm commitment to resource and maintain a core-funded facility to carry out these functions.

Concluding remarks

Thank you for accepting AFPA's feedback. While not an exhaustive list of all the issues confronting the Australian forest, wood and paper products industry, we have attempted to provide an overview of key issues affecting the forest manufacturing sectors, while also acknowledging its significant integration with the wider forest industry supply chain.

AFPA remains committed to working with all Parliamentary decision-makers to improve the overall regulatory environment for our industry to maximise its contribution to the economy, and other social and environmental benefits. Should you have any queries, please contact Marion Niederkofler on 02 6285 3833 or at marion.niederkofler@ausfpa.com.au.

Table 1: Estimated employment in the forest-growing and wood product sector, 2006

Sector	No. of employees
Forest growing and management	7,348
Timber harvesting and haulage	8,973
Sawmilling and timber processing	19,081
Timber product manufacturing	37,800
Wood panel and board production	5,635
Pulp and paper manufacturing	11,024
Timber merchandising	22,134
Support service internal to industry	5,445
Support service external to industry	2,745
Total	120,184

Source: ForestWorks (2006).

Map 1. National Plantation Inventory regions (wood supply zones)

Source: ABARES 2011. Accessed at: <http://adl.brs.gov.au/mapserv/plant/region.phtml>

The industry is a significant player in the regional economies shown above. In the Lower Limestone Coast sub-region of the south-east region of South Australia, for example, which has a plantation area of just over 150,000 hectares, the forest industries contribute:

- \$520 million in direct gross regional product (or 19% of the regional total);
- 3,600 direct jobs (or 11% of regional employment);
- direct household income of \$240m (or 19% of the regional total); and
- indirect flow-on in regional product of \$240 million and 3,900 jobs (comprising 25% of total regional output and 22% of employment). (Econsearch 2008).

Similarly, the Murray Valley region of New South Wales and Victoria has a total plantation area of just over 195,000 hectares that supports a number of processing facilities in towns such as Tumut, Tumbarumba, Albury, Holbrook, Wagga Wagga and Myrtleford. The local forest industries directly employed around 3,000 people in 2003-04, with flow-on employment of an additional 4,000 people (or 1.3 jobs for every direct job) and \$1.83 of output generated for every dollar invested in the plantation sector (Forest and Wood Products Research and Development Corporation and Bureau of Rural Sciences 2005).