

EVANS, Mr James, Sub-branch Secretary, Pulp and Paper Workers, Construction, Forestry, Mining and Energy Union

WACEY, Mr Travis, National Policy Research Officer, CFMEU Forestry and Furnishing Products Division, Construction, Forestry, Mining and Energy Union

CHAIR: Welcome. Information has been provided to you on parliamentary privilege and the protection of witnesses. Is there anything you wish to add about the capacity in which you appear today?

Mr Evans: I have also worked as an employee at Shoalhaven Paper Mill for the last 20 years.

CHAIR: Okay. CFMEU has lodged submission No. 39 along with five supplementary submissions with the committee. Do you have any amendments or alterations?

Mr Wacey: No, not at this point. There was a supplementary submission from the Department of Finance in response to our first submission. In terms of volume of paper with regard to tissue paper, we have had a look at what they have had to say and we think that is a reasonable analysis. We have also made reference to the situation for tissue paper procurement in one of our supplementary submissions.

CHAIR: Thank you very much. I note invite one or both of you to make an opening statement before we go to questions from senators.

Mr Wacey: Thank you very much. The CFMEU is a trade union which consists of three divisions: the Construction and General Division, the Forestry and Furnishing Products Division and the Mining and Energy Division. We would like to thank the committee for the opportunity to give evidence at this public hearing and contribute to what we consider a very important inquiry. To reiterate what our position is up front: more Australian made goods in government procurement and on Commonwealth supported construction projects would be good for the Australian economy and good for Australian jobs. It is for this reason that the CFMEU has been advocating changes to government procurement policy over a number of years to all political parties as part of the CFMEU's campaign. I was just discussing with Jack, and I think it was November 2012 when our first delegation of pulp and paper workers came up to discuss this issue with the previous government.

We think it is important not just because the Commonwealth market is so significant but because Commonwealth purchases and behaviour set a broader precedent for consumers both at home and abroad. I took note of what Senator Lundy said in her contribution on 27 March about how in the IT sector there is a fair bit of credence if a government contract can be secured in terms of marketing both in Australia and abroad. To be clear: our policy is not that Australian goods should be purchased instead of imports at any cost. As the Senate also heard on 27 March, I think in the contribution from Senator Colbeck, it is a valid point that every dollar the government spends on procurement does need to be raised by the taxpayer. What our submission says is that we see a lot of procurement decisions which impact the Commonwealth's ability to raise revenue as, essentially, a direct consequence of the decisions of the government to prefer imports just because the imports are a little bit cheaper.

The situation is impacting the Commonwealth's ability to raise revenue by smashing the tax base and resulting in further budgetary pressures such as government outlays like welfare. One example which has been brought to this committee's attention by us and also Australian Made Ltd is a procurement decision where a contract to supply envelopes worth \$843,000 was offshored because the Australian made alternative was about \$8,000 more expensive—less than one per cent of the price of the whole procurement. The problem was that, behind the scenes, workers were losing their jobs as a result of the lost work not just in the envelope manufacturing industry but in the pulp and paper industry and in the forestry industry as well. We are not just talking about one or two jobs; we think that 15 to 20 direct production jobs were triggered by the loss of this contract, and it is a situation representing literally hundreds of thousands of dollars, if not millions of dollars in lost taxpayer revenue in the short, medium and longer term just for the \$8,000 benefit. What a bargain, I guess! The economic activity forgone for that just to supply the paper for those envelopes would have been \$173,000.

So there are a number of mechanisms which we are promoting for the committee's consideration to avoid this waste of taxpayer money and which could be used to prevent these outcomes which we feel are consistent with Australia's international trade obligations as well. The committee has already heard some evidence from the Australian Manufacturing Workers Union, and there was also a bit of discussion with the last witnesses as well about how chapter 15 of the Australia-United States Free Trade Agreement does not apply to any form of preference for small and medium enterprises. The CFMEU puts forward as a potential solution our true-value proposition, with the onus being on the Australian supplier to quantify the return to the community in tax receipts and welfare expenditure saved from continued economic activity associated with local manufacturing and also

any benefit to small and medium enterprises associated with continuing local manufacturing. This can probably be considered in tender evaluations, where there is the opportunity to demonstrate that.

But a complementary approach, which would lead to significant import replacement in Commonwealth procurement markets, in our view would simply be the Commonwealth enforcing compliance with its current Commonwealth procurement rules. I know senators are aware of this, but factors to consider in value-for-money decisions include: fitness of purpose, a potential supplier's experience, flexibility, environmental sustainability and whole-of-life costs. We think that, if these were taken into account in the example that I just gave about the envelope procurements—not just in the establishment of the panel for the right to supply the envelopes but also at all stages of the procurement—the situation would have been avoided and the Australian made alternative would have been procured. We are happy to provide a bit more evidence about that particular procurement if there are questions.

In looking at the operation of that panel for the envelopes and also the one established for the whole-of-government supply of stationery and office supplies contracts, there seems to be an erroneous assumption that the cheapest price equals best value for money. It seems to prevail after the so-called conditions for participation are met at the establishment of the panel stage. Due to the fact that we knew that this was the case for the paper products, which are Jack's area of background, we were not particularly surprised to hear the evidence from the Australian National Audit Office at the last public hearing which seemed to indicate that not all relevant financial and non-financial factors in value-for-money had been adequately documented. We agree with what Senator McKenzie said in response to this. 'The commonsense assumption is: if they haven't written anything down, they've taken a value-for-money equals cheapest price approach.' This is an approach which we believe is widespread and actually denies a level playing field for Australian producers, who generally excel in terms of their production standards and the quality of their product. Jack from the Shoalhaven Paper Mill is here today. He is able to expand on other value-for-money considerations such as national security interests which should be taken into account in considering Commonwealth procurement of paper products.

I also bring to the committee's attention that I was hoping to have another colleague here from the building and construction industry today, but there was a little bit of a mix-up at the airport. But I am happy to answer any questions about the other part of our submission as well, because it is apparent that imported goods are being procured in markets for building products, including a lot of those markets supplying government supported infrastructure products, just because they are the cheapest as well. It would appear that, just like with pulp and paper, legitimate value-for-money considerations are not being considered. For building products, these considerations would appear to include whether the goods conform to Australian standards, which in many cases are essential for the safety of workers, consumers and the public. Also, whole-of-life costs and the fact that the imported products have shorter warranties or less secure warranties does not appear to be adequately taken into account in value-for-money decisions currently.

In terms of the widespread nature of the problem in the building products industry, when the Australian Industry Group released its November 2013 report on this, the press release had as the headline: 'Non-conforming products widespread across building and construction sector'. That report was funded in part by the Department of Industry—which was an outcome of the Prime Minister's Taskforce on Manufacturing, which was an outcome of a suggestion from the Manufacturing Leaders Group, and the CFMEU were on the project advisory committee for that report.

As Cliff is not here today and so will not be able to talk about the glass industry and the quality of some of the stock coming in—and it would have been good to have him here because he has 45 years of industry experience and can tell you some harrowing stories—I am happy to answer any questions about that, if they come up, and to take any questions on notice if it is of interest to the committee. Thanks.

CHAIR: Thank you very much, Mr Wacey. Mr Evans, I invite you to make an opening statement.

Mr Evans: As I pointed out, we are a struggling mill down in the Shoalhaven. We have been for probably the last six years or more, and I have just come here to properly explain some of the products that we are making. If we do not do something about the products and change the way things are happening at the moment, we are going to lose them to overseas, and I would not like to see that.

CHAIR: Thank you very much for that. Mr Wacey, my question goes to some of the latter points you made about compliance with existing Commonwealth government policies, particularly the interaction between the Commonwealth Procurement Rules and other policies such as the National Waste Policy and the ICT Sustainability Plan. Could you provide the committee with the CFMEU's observations on how those two additional policies interact with the Commonwealth procurement rules and impact on the procurement of paper and tissue products.

Mr Wacey: Yes, certainly. I will start with the National Waste Policy, which, as you know, is meant to encourage recycling throughout the value chain—sustainable procurement and other sustainable solutions and those sorts of things. As you would be aware from the evidence that was provided by the Australian Forest Products Association as well as by AP—that is, Australian Paper—and it is also our observation, the National Waste Policy is not being taken into account at all by government departments when they procure imported recycled paper instead of Australian made recycled paper, and this is really going to be highlighted when the de-inking plant gets off the ground a little bit later this year. To comply with the National Waste Policy, we really think that the Australian government, as part of this procurement connected policy, needs to take that into account and needs to recognise that the environmental benefits of recycling in Australia can only be realised if there is closed-loop procurement, because procuring overseas recycled paper does not have the same environmental and social benefits. Currently, just on the National Waste Policy—and it is the point we have made in our submission—we do not think that it is being properly taken into account at all.

Under the ICT Sustainability Plan, and I alluded to this little bit in my opening statement and in the supplementary submission, there are requirements for copy paper, such as 50 per cent recycled content from 2011, increasing to 100 per cent post-consumer recycled content, and the remaining non-recycled content has to come from sustainably managed forests. It says sustainably managed forests are those which are certified by the Forest Stewardship Council or Australian Forestry Standard. Now, we think that they are appropriate conditions for participation.

However, we do not think that, when considering all financial and non-financial costs with the procurement of paper, it means that every paper which is 50 per cent recycled content and comes from a chain of custody source is necessarily equal in terms of environmental sustainability with, for example, an Australian made paper which we think has far better environmental and indeed social qualities. We have pointed out in our submission a number of copy papers available which we do not think are as sustainable as the Australian made alternative. But this does not seem to be taken into account because the conditions for participation in the contract have been met. One last thing about the ICT sustainability plan is that those requirements are required for external printing only where possible, so the external printing volumes compared to the copy papers are significantly more, from five to nine times more. We think that for external printing the fact that the requirements of the ICT sustainability plan and presumably the national waste policy as well, because it just says that they need to be met where possible, means that in a lot of cases that is putting Australian industry on an unlevel playing field when competing with these imported items.

CHAIR: Thank you very much for that. I am very conscious of time, so I will hand over to Senator Xenophon.

Senator XENOPHON: Thank you both for being here and for your submission. I have a couple of questions and I think my colleagues have a number of others for you. Mr Wacey, you mentioned that it is not a level playing field, it is not a like-for-like comparison. Can you provide further details in relation to issues where products that have been brought in from overseas have not been of the same standard, have not had the same warranties? I find it extraordinary that you would have something with a lesser warranty, a lesser standard. I think Senator Madigan made reference to the ASIO building, of all buildings, and some imported glass there that was not up to standard. You do not necessarily have to answer this now but can you on notice provide some further information in relation to the fact that it seems that the procurement guidelines are not nuanced enough to take into account not just the job effects here in Australia but also quality aspects so that the whole of life cost will be much less? It might cost five or 10 per cent more now but we will end up saving a hell of a lot more money down the track because you will not have the same maintenance or the same quality control issues that you do with some of the products imported from overseas. Finally, to what extent do you think there has been sufficient compliance with the Australian standard? Do you think the Australian standard has been adhered to in terms of assessing material from overseas which clearly does not comply?

Mr Wacey: Certainly. As I said earlier, it would have been good to have it for you here today, but the anecdotal evidence that we are getting is that, for example, Chinese curtain walls are coming in at what we would consider dumped and subsidised prices as well.

Senator XENOPHON: Chinese what, sorry?

Mr Wacey: Chinese curtain walls are the glass sort of buildings which are not designed to take a load in terms of the building; they sort of clip on.

Senator XENOPHON: Could you provide some more details to the committee in relation to that? I am interested in that because of the interest I have in dumping. We are supposed to have more effective antidumping measures. Also there are the safety aspects, as Senator Madigan has pointed out.

Mr Wacey: Yes. I can say that the Commonwealth procurement rules do talk about whole of life costs and that these issues should be taken into account. I do not think they are in these what we call substandard building products. In terms of the warranties, they are less secure because they come from maybe importing Chinese subsidiaries which are thinly capitalised and there could be a potential for less recourse or litigation if something does go wrong in terms of the safety. There is little evidence that they do reach the Australian standards in terms of deflection and these issues as well.

As I said, with the warranties my advice is that, even if you were able to get recourse around the issue of failure, it would be only a 15-year warranty instead of a 30-year warranty. A lot of the buildings in China do seem to need replacement and that sort of thing at the moment and it is definitely the same business model which exports to Australia. I am happy to provide more information on that on notice. We think that for Commonwealth supported infrastructure projects there is some hope that, if the Australian jobs legislation is properly implemented, these sorts of issues will not occur, because of Australian industry participation plans and the five to 20 per cent that the Industry Capability Network suggests local content increases by. We are also finding that a lot of the specifications are just specifying out Australian made products in this area, and the industry in Australia is obviously really suffering in this situation because it is not competing on a level playing field, as you pointed out.

Senator MADIGAN: Mr Evans, we understand from your fact sheet that the Shoalhaven mill has a pretty important capacity to produce the sort of paper used in important documents like Australian passports, birth certificates, visas et cetera and is the only Australian manufacturer with this capacity. Do you believe that there is enough acknowledgement of the security aspect of producing this paper in Australia, with forgeries et cetera of important government documents? Do you believe that there is enough weight given in government procurement to the social, economic, environmental and security aspects of purchasing Australian made?

Mr Evans: No, I do not, actually. We have been making those grades of paper and, like I said, I have worked there for 20 years now. We see the decline in orders for that paper. We used to make it on a regular basis, probably once a month, with couple-of-hundred-tonne orders. We are now down to making that probably once every three months and it is probably a 20-tonne order. It has reduced by that much. We just cannot operate on the same playing fields as the imported papers that are coming in. To turn that around, I think we need government support in trying to bring it back to a level playing field, before we lose this paper altogether. If we lose that paper, I would not like to have my birth certificate or passport made from overseas paper. It is an Australian product. It is made at Shoalhaven. It is Australian made. We should be able to keep it that way.

Senator MADIGAN: I would like to explore the security aspect a bit further. Were the security aspects built into the paper developed by your company?

Mr Evans: They were developed before I started there. We have specialised people. We have just let one go because we do not have the capacity to make more orders. We keep putting in for the orders, but we are losing the orders. So we are down to one operator to make these specialised dyes—or dandies, as we call them—for these security papers. It is a real concern for us because we will not be able to compete in commodity grades. Our machine is not big enough, fast enough or anything like that, so we rely on these specialised grades. If we lose these resources through downturn in business and so on, we will end up losing this business overseas.

Senator MADIGAN: Are you able to enlighten the committee on where the rest of the paper for these government documents is being purchased from currently? You mentioned earlier 200-tonne orders and that you are down to 20-tonne orders. One would assume that we would not be consuming less of this paper; we would be consuming more of it.

Mr Evans: I cannot answer that at the moment. Whether it has been sourced from outside Australia I am not entirely sure. All I know, as an employee, is that we are just making those grades of paper. For what reason, I am not 100 per cent sure at the moment. All I can see is a huge decline in security papers, birth certificate papers and things like that.

Senator MADIGAN: If there are other people making this paper and it is being made offshore, it would be reasonable to assume that there is a risk of this paper being forged overseas.

Mr Evans: Yes.

Senator MADIGAN: I am getting down to the security aspect of important documents.

Mr Evans: I totally agree. If it goes offshore we would be struggling to keep the security side of things. The watermark which we put in the paper, the inclusions that we put in the paper and things like that, are specific to Shoalhaven and Australian Paper.

Senator MADIGAN: It is a signature definition in that paper that comes out of Shoalhaven. It can be identified that that has come from the Shoalhaven mill.

Mr Evans: Definitely, through the watermark and the security grades.

Senator MADIGAN: I believe that you do not just produce this type of security grade paper. Are you able to enlighten the committee about what other grades of paper you make, and for what purposes?

Mr Evans: We make optic tints—every colour in the rainbow. We make black paper, which is a unique paper. I believe that it is the only black paper that is made in Australia. We also make grades of paper—heavy weight grades—which are embossed with an imprint in the paper. A lot of our machines are filled up with commodity grades now, just to keep the machine running. The capability of our machine means that we can make anything from 60 grams to 350 grams, with any inclusion. It is quite a unique machine and for the employees the minimum years of service would be around 15 and the average would be around 30 or 35. The operators who run the machines and work at the mill have a great deal of experience in making these particular grades.

Senator MADIGAN: What do you think is going to happen if we do not increase business for the Shoalhaven mill and other Australian paper mills by changing government procurement procedures to secure the future of the industry? What do you think is ultimately going to happen?

Mr Evans: I believe our mill—Shoalhaven mill—will close in the near future. Then we will lose them to imports. If we lose them, birth certificates, passport paper and all the security papers will be taken offshore. There would not be a mill in Australia that would pick that back up. It is that unique a product.

Senator MADIGAN: In terms of the skills that are associated with doing these security papers—skills which are unique to your community—what do you think is going to happen?

Mr Evans: If we lose those skills I do not think they will ever be regained. As I said, the years of service on the machine is a minimum of 15 years and an average of 30 or 35 years. It takes a lot of training. There are specific requirements for the paper. Every bit of paper that comes off that machine is laboratory tested. I do not think, if they went offshore, we would have that same kind of security. We would lose that. I would imagine.

Senator GALLACHER: I just go back to the fact that we may lose the mill or the paper plant. Most of the discussion around procurement here leads us back to these free trade agreements. At some stage or other, someone says, 'You have to do this because we have a free trade agreement.' Do you export anything to America?

Mr Evans: I am not aware of all the grades or where they go to, but we do export paper. They are mainly our commodity grades and things like that. We have also made specialised paper for Bangladesh, which was quite a challenge for the mill at that stage. We were able to complete that. Our problem is that we put tenders in for these orders and we just cannot compete with the overseas markets.

Senator GALLACHER: I am not asking you to speak for the company but, in your 20-year experience there, you have not been significantly exporting? There is no significant increase in exports with the free trade agreement?

Mr Evans: No. I do not see it in the tonnage which we make on the machine.

Senator GALLACHER: When it comes back to tendering for work in Australia, who is your most successful client? Do you have any idea?

Mr Evans: Most of our grades will be Spicers and our paper merchants.

Senator GALLACHER: There is a lot of detail in your submission. There is criticism of Office Max, which we are all bound to use. The 226 people in this parliament are all bound to use OfficeMax. Do you supply OfficeMax?

Mr Evans: I am not aware of it, no.

Mr Wacey: Maybe I can intervene, Senator Gallacher. Jack's sister mill in Maryvale in the Latrobe Valley produce a range of copy paper. They include copy paper, which is sold to OfficeMax. I understand that OfficeMax owe us about 20 to 30 per cent of the Australian office suppliers business and, obviously, as you say, what we consider a monopoly arrangement to supply senators and members of parliament. The other two in the whole-of-government stationary and office suppliers are Corporate Express and Complete Office Supplies.

Senator GALLACHER: I am just trying to understand this. We have a paper plant that is going to be 100 per cent recycled paper. Fifty per cent of the government departments have told us they buy Australian product. Then there are others buying from Germany and, I think, Austria, who are sourcing the product from Russia, where there are no environmental standards. I am trying to thread my way through these purchasing decisions. Paper is

not going to vary that much in cost, is it? We can all do our own research. We can wander around Kmart, OfficeMax or BigW and see how much a box of paper costs.

Mr Wacey: We compared Australian made paper, which was Reflex 50 per cent recycled, to the product which was being imported as a private label brand for OfficeMax, which was from Austria, which you indicated, and the fibre definitely tested 50 per cent from Russia. We have not been able to ascertain that, but we think it is. I think the difference in price for a ream of 500 pages was 16c or three per cent or something like that. We just think that, whichever way you look at value for money, whether you take into account the ICT sustainability plan and the fact that you need to weigh in harm environmental factors of 20 to 40 per cent in terms of the forest management, the national waste policy, which looks at recycling rates in Australia, the carbon miles associated with the import, 16c is just not worth it, and that is before you even start looking at the social, economic and environmental benefits of Australian made paper.

We had a petition, which Senator McKenzie alluded to in her contribution on 27 March, which was lodged by the Nationals MP for Gippsland, Darren Chester, last year, which was all about the Australian government committing to buy more Australian made paper and fewer imports. We think that it is a no-brainer. We were able to gather 4,000 signatures in a little over 2½ weeks, not just in the valley but in paper mills around the country and within communities. We do not want special treatment necessarily, but we feel that if we do have a level playing field we can compete with the best.

Senator GALLACHER: Absolutely. If we just look at the purchasing of paper by federal government departments we find that 50 per cent of them were able to use the current guidelines and came up with the answer that Australian paper is the best. The other 50 per cent of them used the guidelines and came up with the answer that it is not the best. Is that basically it?

Mr Wacey: I think that what happens is that you have the Whole of Government Stationery and Office Supplies and you have three office suppliers, as I alluded to. One of them has about 75 per cent of the market in Australia, one has about 20 to 30 per cent and one has about 10 per cent. The bigger Whole of Government Stationery and Office Supplies sources the Australian made and provides it at a cheaper price than the imported products. The other stationery and office supply companies within the whole-of-government contract do not do that. They source imported product and supply it cheaper than the Australian-made alternatives that they have to offer. As part of the Whole of Government Stationery and Office Supplies company, it is up to the department to enter into a deed with one of the three companies. Once you enter into the deed, you can order the paper on that basis. The Department of Finance has made the decision, regarding the stationery and office requisites allowance, for members and senators to enter into a deed with OfficeMax. That is the decision that they made.

Senator GALLACHER: Is there a limit on where paper can be imported into Australia from at the moment?

Mr Wacey: Are there any restrictions?

Senator GALLACHER: Can China export paper to Australia?

Mr Wacey: They certainly do. There is actually an antidumping investigation going on at the moment about imported A3 and A4 copy paper coming in from China. The pulp is produced in Uruguay from the industrial plantations over there. It goes from China. Certainly the CFMEU has put in a submission to that inquiry suggesting that there should be antidumping duties put on that. The Anti-Dumping Commission has come back with a preliminary report, which I believe is going to go to the parliamentary secretary today. That will be their final determination. The earlier determination, for us at least, indicated that there are significant improvements still to be made to the antidumping system in this country, essentially because the normal value determination or the home price compared to the export price, on which they made their dumping margin, looked at Chinese domestic sales. We made the point in our submission that the Chinese paper industry has had, I think, \$30 billion in government subsidies over the last eight or nine years. The analysis that we quoted was that that was impacting the domestic market in China and it was being sold at a lower price there than it would have been in the ordinary course of trade. It is interesting times. OfficeMax obviously does supply that to members and senators as well—paper from China. As I said, the one which originated in Uruguay. I know now that members and senators are not subject to those ICT sustainability guidelines. But I would urge you not to procure dumped product from China.

Senator McKENZIE: Have you had an opportunity to read the supplementary submission from the Department of Finance?

Mr Wacey: Yes.

Senator McKENZIE: Regarding the evidence provided by the CFMEU to this inquiry, they have re-corrected the record, if you like. Would you like to take this opportunity to address any of the concerns raised by the Department of Finance about the evidence given by the CFMEU with respect to this?

Mr Wacey: I will just repeat what I said in the opening statement about what I believe about the tissue paper volumes. That seems to be fair criticism of our submission. I do not think that a lot more of it is material. With the tissue paper issue, I think we said it was \$100 million. Industry said that in their submission as well—that is, the Australian Forest Products Association. I think the Department of Finance has said it was \$7.2 million. We think it is now \$7.9 million. It is a little bit hard to tell, because a lot of the tissue papers are not procured through these whole-of-government SOS products. They are procured through cleaning agreement contracts. But I think that is fair criticism.

About what they say about the copy paper or the external printing, I am not sure about their numbers, either. I do not think what they have said about the copy paper volumes and the percentage of market share that they have is fair criticism at all, because they have compared the copy paper market with the entire fine market for externally printed documents, catalogues and that sort of thing. They have considered that the same market, citing Australian paper's anti-dumping submission, which we think is a little bit false and misleading.

Senator McKENZIE: Similarly, I refer to page 10, I think, of their submission. The CFMEU is not implying that the Department of Finance endorses the false and misleading information provided by OfficeMax on forestry certification. That is not your contention. You do not think the Department of Finance supports that. They make a very strong statement that they do not preference either certification system.

Mr Wacey: That might be the official policy, but we have been able to table evidence to this inquiry—which I think is of a confidential nature but available to senators—which suggests that, when a question was asked about the sustainability of the Australian product, false and misleading advice did come from an officer of the Department of Finance and that advice did appear to come from, at the first call, the company, just looking at the email trail. I would say that it is their official policy. I assume their official policy is the same as the Australian government's, where they do not preference PEFC and FSC differently, or the AFS. They put them on level footing, which we think is appropriate for conditions of participation.

CHAIR: Thank you both for your evidence this morning. It was most helpful towards our inquiries.

Mr Wacey: Thanks for having us.

CHAIR: Thank you very much for appearing.