



**Senate Finance and Public Administration Committees**

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Thank you for the opportunity to be able to submit our views to this inquiry.

Hundreds of CFMEU members in the paper manufacturing industry and its supply chain, their families and community members gathered at the Morwell football club on the 18<sup>th</sup> of November 2015 to hear from employer, industry and government representatives (including *Australian Paper* Chief Financial Officer Peter Williams, Deputy Mayor of Latrobe Council Sharon Gibson, State Member for Morwell Russel Northe, Federal Senator for Victoria Ricky Muir, Federal Member for Gippsland Darren Chester and National Secretary of the CFMEU Michael O'Connor .

The National Secretary's speech is available for viewing online @

<https://www.youtube.com/watch?v=Vt3u1Jbm3Ag>

A video of full proceedings of the meeting can be made available on the request of the Committee.

The unanimous resolution passed at the meeting included that it:

- Calls for the establishment of a 'Maryvale Community Action Group' to lobby the federal government and call on them to provide an ongoing commitment to procuring Australian made 100% recycled paper.
- Thanks Members of the panel Federal member for Gippsland Chester and Senator for Victoria Muir, along with Member for McMillan Russell Broadbent for advocating for the Latrobe Valley community and jobs at *Australian Paper* in Canberra
- Calls on Government Ministers to positively respond to Minister Hunt's letter to them asking for them to buy recycled paper and to make their responses public.
- Endorses the Australian Senate's motion calling on the government to immediately reinstate an ongoing commitment to procuring 100% recycled paper.
- Congratulates the Senate for recognising the economic, environmental and social attributes of Australian made recycled paper over imported recycled and non-recycled paper.
- Calls on the Government to urgently consult with employers in the industry and the CFMEU on 'value for money' criteria for purchasing paper which adequately takes into account 'non-financial costs' of purchasing imported recycled and non-recycled paper instead of Australian made recycled paper.

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**Stand up. Speak out. Come home.**

- Calls on the Government to urgently consult with industry and the CFMEU on what is needed to make our Anti-Dumping system responsive to unfair trade and the suffering of local industries, families and communities.
- Calls on the Government to develop an industry plan for the Latrobe Valley and Gippsland region which supports jobs and communities.

The CFMEU endorses the resolution to the Committee for its consideration and encloses recommendations outlined in the submission to support this call for a fair go in Federal Government procurement markets for workers.



*Participants at the community meeting vote for the resolution*

## Terms of reference

On 2 February 2016, the following matter was referred to the *Finance and Public Administration* References Committee for inquiry and report by the 23 June 2016:

Commonwealth procurement procedures – paper procurement, with particular reference to:

- a. progress made by the Government to address the recommendations in relation to paper procurement in the Finance and Public Administration References Committee’s report, Commonwealth procurement procedures (tabled 17 July 2014);
- b. the impact of procurement connected policies, with particular reference to the ICT Sustainability Plan and the National Waste Policy, on securing manufacturing investment and jobs in the paper sector; and
- c. any other related matters.

Submission closing date is 31 March 2016. The reporting date is 23 June 2016.

## Introduction

The CFMEU is Australia’s main trade union in construction, forestry and furnishing products, mining and energy production. We welcome the opportunity to make this submission and would welcome the opportunity to participate in a public hearing.

We have been advocating for the full, fair and reasonable access to, and participation in, the Federal Government’s procurement markets for Australian manufacturers and suppliers for a number of years. We are continuing to campaign for a fair go in these and other markets through our broader jobs campaign: *‘Our Jobs, Our Kids, Our Future.’* When it comes to the Commonwealth Government’s paper procurement, we have been advocating on behalf of

thousands of our members reliant on the pulp and paper manufacturing industry and the industry's supply chain and the families and communities of workers which rely on the viability of its future.

Three and a half years on from our first 'pulp and paper worker delegation' to Parliament House Canberra, and four Prime Minister's later, our campaign for a fair go in the Federal Government procurement market continues. Unfortunately, there remains a litany of Federal Government Departments and Agencies whose procurement records reveal that they do not buy Australian made paper. The 2014-15 FY procurement records recently revealed in an answer to a written question by Senator Carr to the *Department of Finance* tabled following *Additional Senate Estimates 2015-16* (attachment 1) demonstrates this. An analysis of the 2014-15 FY records is also attached (attachment 2)

Of particular concern is that the *Department of Finance* mainly source their paper from overseas. The Department's total paper buy which was sourced from overseas in the 2014-2015 FY was 99.9% of its overall total. As this submission will explore the *Department of Finance* is responsible for the Australian Government's procurement framework which stresses 'value for money' in all purchasing decisions. The Department, as the custodian of this procurement framework, should be setting a better example.

Another high profile department doing the wrong thing is the *Department Industry, Innovation and Science* which procured just 10% of their paper from Australian manufactures and preferred paper imported from Austria, Brazil and Indonesia. These procurement decisions seem particularly curious given the Department administered a grant to assist *Australian Paper* in the Latrobe Valley build a \$90 million deinking and recycling plant. The effect of the investment of the potential diversion of 80,000 tonnes of waste paper from landfill per annum to produce premium grade recycled paper. *Australian Paper* is now lacking a market to support this activity (recycling rates in Australia are high, about 68% of office paper is recycled but less

than 18% of new reams contain *any* recycled paper<sup>1</sup>) The Department, by disposing of waste paper in a way which means it can be recycled but then not behaving in a way in the market which results in the purchase of that paper (and thereby ‘closing the loop’), is not really recycling as required by the Government’s *National Waste Policy*, but rather are only doing half the job.

Of great concern is also the behaviour of the *Department of Prime Minister and Cabinet* (which procured only 8% of their paper from Australian manufacturers) and the *Department of Treasury* (which procured only 17% of their paper from Australian manufactures) Exacerbating this poor performance was a combination of the Departments’ preferred source countries (Brazil and Indonesia) and the small percentage of paper they used which was made from 100% recycled waste paper (only 8% and 9% respectively). Competitive land use issues including deforestation of Amazon rainforests and Indonesian peat lands makes sourcing from these countries paper manufactured from virgin fibre high risk. It is difficult to understand how the Departments’ procurers have therefore justified these purchasing decisions from a ‘value for money’ perspective.

The *Department of Environment’s* behaviour is not much better. The Department procured 98% of its paper from overseas. Although 96% of this was made from 100% recycled waste, none of this was manufactured in Australia but was instead imported from Indonesia, Germany and Austria. The *Department of Environment* and other departments and agencies who exhibited similar behaviour (procuring paper manufactured from 100% recycled waste paper but importing it from overseas) are likely ignoring the value associated with procuring Australian made recycled paper. The benefits of paper made with waste paper recycled in Australia includes diverting paper from landfill in Australia and reducing carbon emissions associated

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<sup>1</sup> Planet Ark, *About National Recycling Week*, available online @ <http://recyclingweek.planetark.org/about/>

with import shipments. Departments who import recycled paper are not in strict compliance with the *National Waste Policy* according to us, as this submission will outline further below.

The *Department of Infrastructure and Regional Development* and the *Department of Agriculture and Water* also performed poorly in the 2014-15 FY period by procuring just 3% of their total paper use from Australian manufacturers. Other poor performers included: The Departments of Health, Employment, Education, and Training, Foreign Affairs and Trade and agencies like the *Australian Taxation Office*, the *Australian Competition and Consumer Commission*, the *Australian Bureau of Statistics* and the *Productivity Commission*.

The frustrating thing about these procurement decisions is that we know that Australian made is competitive. We know this because, according to the information in attachment 1, 65% of paper procured by the Federal Government in FY 2014-2015 was actually Australian made. This reality means that many departmental procurement officers recognise that Australian made paper does indeed provide ‘value for money’. That the remaining departments and agencies some of which are outlined above and in attachment 2 can continue to ignore the social, economic and environmental benefits of procuring Australian made is simply not good enough and a slap in the face to workers doing it tough. This submission, by addressing the terms of reference, will explore some of the reasons why we think that the benefits of procuring Australian made paper continue to be ignored by certain departmental procurement officers and provide some recommendations in order to rectify the situation.

## **Summary of Recommendations**

### 1.1

Consistent with the Recommendations of the 2014 inquiry into Commonwealth procurement procedures (report tabled 17 July 2014), the Australian National Audit Offices’ (ANAO’s) response to those recommendations and the Government’s response, the committee

recommend the Prime Minister order the ANAO to audit the acceptability of ‘value for money’ justifications associated with each purchase of non-Australian made paper in the 2014-2015 FY.

## 1.2

The Committee recommend that departmental and agency procurement officers be required to justify (and make these justifications public) paper purchasing procurement decisions when they do not result in the procuring of Australian made paper and for that justification to include a full explanation on how they have considered the requirements of procurement connected polices (including the *National Waste Policy*) and Government policy (including the *Commonwealth Procurement Rules*) and the financial and non-financial costs and benefits which have contributed to the forming of their ‘value for money’ decisions.

## 1.3

The Committee recommends that procurement officers in general when using government funds, be required to document their ‘value for money’ decisions far more adequately than current arrangements require particularly when procuring imported products when there in an Australian competitor, with their documentation including how the following factors have been taken into account and costed:

- Price
- Performance standards
- Whole of life durability
- Maintenance costs
- Security of warranties
- Production standards (environmental and social)

-Viability of Australian industry and its ability to provide an ongoing source of competition to imported products

-Risk

## 2.1

The Committee recommend that the Government's (until recently) long standing policy that 100% of general use copy paper purchased by Government departments and agencies from July 2015 be manufactured from 100% recycled waste paper be reinstated as a mandatory procurement policy of the Commonwealth.

## 2.2

The Committee recommend that the *National Waste Policy* be reinstated as a mandatory procurement connected policy of the Commonwealth.

## 2.3

The Committee recommend that the *Department of Industry, Department of Finance* and *Department of Environment* work with the employers and unions in the industry and other stakeholders on guidance and then provide to procurement officers information on the financial and non-financial benefits of procuring paper made from recovered sources recycled in Australia as opposed to procuring paper made overseas. The guidance should include how these benefits must be subsequently factored into 'value for money' decisions and documented as such as per the suggested requirement outlined in recommendation 1.2.

## 3.1

The committee recommend that the Prime Minister orders the ANAO (as part of the project outlined in recommendation 1.1) to audit Government paper procurement and determine if the



Whole of Government Stationery and Office Supply contract (WoG SoS) provides barriers to Australian industry participating in the market fully, fairly and reasonably.

### 3.2

The committee recommend that the *Department of Finance* takes advice from the ANAO in determining whether the WoG SoS contract be extended by 1 year, as per the extension options for the arrangement, as opposed to having the opportunity to exercise the extension option at its own discretion.

### 3.3

The Committee recommend that as part of the ANAO's suggested audit (outlined in 1.1, 3.1 and 3.2) it provide instruction to the *Department of Finance* on whether (based on the results of the audit) the department should seek a quote from an office supplies company for a Whole of Government supply arrangement for Australian made 100% recycled paper. This advice might be provided in recognition of the environmental benefits of procuring paper made from waste paper recycled in Australia instead of paper made from waste paper recycled overseas, consistent with the *National Waste Policy* and requirements of *Commonwealth Procurement Rules* and the potential financial savings to the taxpayer of such an arrangement compared with maintaining a panel arrangement for paper supply which results in different suppliers providing 100% recycled Australian made paper at different prices.

### 4.1

The committee recommend that as per the requirements of the former long standing policy the *ICT sustainability plan*, paper manufactured from 100% recycled sources be used for Government external printing (including for electorate/ ballot materials) 'where possible' and the same factors (i.e. requirements of the *National Waste Policy*) be required to be taken into account by procurers when making specifications to their printers as departmental procurers of copy paper are required to undertake.

4.2

The Committee recommends that the ANAO in their audit also look at what paper is currently being specified by Departments and Agencies for external printing and how ‘value for money’ decisions around these specifications are being assessed as per the process outlined in 1.1.

This submission will address the terms of reference as below:

**Progress made by the Government to address the recommendations in relation to paper procurement in the *Finance and Public Administration References Committee’s report, Commonwealth procurement procedures (tabled 17 July 2014)***

As part of our campaign for a fair go for our manufacturing members in Government procurement markets we were very active in the *Senate Finance References Committee 2014 inquiry into Commonwealth Procurement Procedures* initiated by Senator Madigan and Senator Xenophon. We made a detailed submission to that inquiry and subsequent further submissions in addition to appearing at a public hearing. Relevant submissions and public hearing transcripts are attached as attachments 3, 4, 5 and 6 for the committee’s consideration.

In these representations we made the point that a ‘value for money’ assessment adequately considering the Government’s own *Commonwealth Procurement Rules* require a comparative analysis of the relevant financial and non-financial costs and benefits. We also highlight that an adequate consideration of the Commonwealth’s procurement connected policies is required. Our contention was that if the above occurred the result would be the Government buying more Australian made paper and less imported paper. The reason for this would be due to the fact that Australian manufacturers held a non-discriminatory natural advantage over paper manufacturers overseas when supplying into the Australian market when these matters were properly considered and assessed. What the inquiry found was that these considerations and assessments, despite being mandatory, were not occurring. We had suspected that this was the case and pointed out in our submission that:

‘It appears that many Agencies’ procurement officers and other procurers simply believe that ‘value for money’ was assessed when selecting panellists for the WoG SOS arrangement. In their view, all copy paper on offer therefore represents ‘value for money’ as long as it is broadly consistent with requirements of the ICT sustainability plan, with the final decision made on the basis of ‘value for money’ with price being the discriminating and determining factor.’<sup>2</sup>

We also pointed out that, if the above was the case, that this would be the same as the way that procurers were considering ‘value for money’ from a panel providing envelopes established by the Department of Human Services:

‘Once established each panellist will be assessed as being able to meet the business needs of DHS for envelopes... at the Request for Quote stage ‘value for money’ assessments are largely dependent on price as the main discriminating factor, given that each panellist is already considered to represent ‘value for money’.’<sup>3</sup>

*Australian Paper* confirmed the practice when it came to office paper purchasing by Government departments and agencies from the WoG SOS panel in the inquiries’ first public hearing:

‘I have spoken about this issue with a number of departments, and the strong impression I get is that they feel that their task, from a sustainability perspective, begins and ends with the ICT guidelines, which specify recycled paper, 50 per cent post-consumer. Any additional issues about, say, sustainability within that context are really not looked into any further.’<sup>4</sup>

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<sup>2</sup> CFMEU, Submission, Senate reference Inquiry Commonwealth procurement procedures (2014), December 2013, p 13, available online @ <http://www.apf.gov.au/DocumentStore.ashx?id=07ac6187-2435-4630-9bc2-dd168387ccb2&subId=31814>

<sup>3</sup> Ibid, see page 19: The Department of Industry, ‘Draft for Deliberation: Australian Government Procurement of Paper’ for the Pulp and Paper Advisory Group (attachment b- Department of Human Services envelope procurement)

<sup>4</sup> Australian Paper, *Public Hearings and Transcripts*, 21 March 2014, Senate reference Inquiry Commonwealth procurement procedures (2014) Canberra, p available online @ <http://parlinfo.apf.gov.au/parlInfo/download/committees/commsen/a0acda4e-0b70-42bd-a671->

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An exchange between Senator McKenzie and the ANAO was indicative of the problem at a broader level which was resulting in purchasing officers apparently often making decisions based on price alone:

Senator McKenzie: 'A lot of the submissions talk about a culture existing within departments that does not go to the broader 'value for money' concepts. In fact, SPC Ardmona said that section 4 is so general and non-specific that government departments and agencies have little way of assessing factors such as quality, sustainability and so on—all the things we have been talking about today. Is the culture existing in departments and agencies around how they assess 'value for money' something you look at?

Mr Chapman: I am not sure I would describe it as culture, but we would look perhaps at what features emerge as part of the culture—whether there is professionalism in the central procurement unit; whether that unit is drawn upon and used in the procurement processes by all parties; whether the processes point to a deeper consideration of 'value for money' through adequately testing the market. An example where that may not occur is where direct sourcing arrangements might occur. Those factors are looked at as part of the auditor process and would lead us to various conclusions around the performance of the agency.

Mr Turnbull: As auditors we are relying on their documentation of their 'value for money' considerations. One of the key failings that we have identified is that often, when they write down why something supplies the best 'value for money', they have not given the range of reasons or the range of considerations. Then it is difficult for the auditors to come along and make an assessment about their judgements and the appropriateness.

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[922115aca60f/toc\\_pdf/Finance%20and%20Public%20Administration%20References%20Committee\\_2014\\_03\\_21\\_2341\\_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/a0acd44e-0b70-42bd-a671-922115aca60f/0000%22](https://www.legislation.gov.au/Details/922115aca60f/toc_pdf/Finance%20and%20Public%20Administration%20References%20Committee_2014_03_21_2341_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/a0acd44e-0b70-42bd-a671-922115aca60f/0000%22)

Senator McKenzie: But I think you would agree that, if they have not written down that they have considered anything other than “value for money’ equals cheapest price’, the common-sense assumption from not listing other considerations that were taken into their decision making would be that they were not taken into consideration whilst they were making the decision. Would that be a fair assumption to make of a document that did not list anything other than lowest cost price?

Mr Turnbull: Certainly from our perspective there was no evidence of their considerations.’<sup>5</sup>

More recent testimony by Mr Sheridan from the *Department of Finance* has betrayed that procurement officers are still not even being required to actually look at the broader factors of ‘value for money’ within the WoG SOS panel arrangement:

‘The ‘value for money’ has been established as a consequence of the panel, and that means they can choose a provider off the panel, confident that that value-for money decision overall has been made from the panel suppliers.’<sup>6</sup>

Following the tabling of the Committee’s report (17 July 2014) , the CFMEU’s campaign developed as outlined by a resolution at a public meeting of workers from the Shoalhaven paper mill, their families and communities (held on July 21 2014)

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<sup>5</sup> Ibid, p 15-16

<sup>6</sup> Mr Sheridan, the Department of Finance, Tuesday, 20 October 2015, ‘Finance and Public Administration Committee’, *Supplementary Budget Estimates*, p 160, available online @ [http://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/c04b6329-94e0-4dc1-a46a-8ba52c0d94e8/toc\\_pdf/Finance%20and%20Public%20Administration%20Legislation%20Committee\\_2015\\_10\\_20\\_3921\\_Official.pdf;fileType=application%2Fpdf#search=%22committees/estimate/c04b6329-94e0-4dc1-a46a-8ba52c0d94e8/0000%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/c04b6329-94e0-4dc1-a46a-8ba52c0d94e8/toc_pdf/Finance%20and%20Public%20Administration%20Legislation%20Committee_2015_10_20_3921_Official.pdf;fileType=application%2Fpdf#search=%22committees/estimate/c04b6329-94e0-4dc1-a46a-8ba52c0d94e8/0000%22)

‘Our local member Ann Sudmalis should encourage those Federal Government Departments that currently do not use Australian paper to justify their decision not to.’<sup>7</sup>

In other words, we wanted procurement officers to have to demonstrate how they did (and if they did) consider non-price aspects and factored these in as non-price costs in their ‘value for money’ decisions if purchasing imported paper instead of Australian made paper. They should be required to go through this process even if they were purchasing from the WoG SOS panel arrangement. After all a ‘value for money’ assessment at every stage of procurement, particularly the critical purchasing phase, is a requirement of *Commonwealth Procurement Rules*.

If the non-price costs (and benefits foregone) of importing paper are not being adequately factored in the ‘value for money’ decision (our contention) this represented an uneven playing field for Australian industry and subsequent consequences of less jobs, less economic activity and less taxation revenue for the Government. This is due to the fact that when non-financial costs are not sufficiently accounted for in ‘value for money’ considerations at every stage of procurement this represents a failure to provide for the full, fair and reasonable participation of Australian industry.

We were confident (and remain so) that if these non-price factors were adequately taken into consideration that Australian made paper would be purchased even it was priced slightly higher than imported paper. In this regards, the recommendations from the inquiry appeared to represent a satisfactory way forward in terms of testing our contention. The ANAO’s response to the recommendations and the Government’s eventual response indicated that there was potentially bi-partisan support for a more methodological approach. For example there was support for a reconsideration of whether non-financial costs in purchasing decisions and

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<sup>7</sup> Resolution of community meeting’, 21 July 2014, Shoalhaven, available online @ <http://www.letsspreaditaround.com.au/news-media/media-releases/great-support-local-community-and-mp-shoalhaven-mill>

compliance with *Commonwealth procurement rules* and procurement connected policies were being adequately assessed, and if it as found that this was not occurring, methods could be developed to ensure that this would be the case in the future.

Despite the *Department of Finance* since making two commitments in Senate Estimates hearings to provide an explanation of the wildly different procurement outcomes (where some procurers obviously consider Australian made paper as providing good ‘value for money’ and others do not (see attachment 7)), no public explanation of any subsequent deliberations has been provided. Due to this, the below recommendations of the Committee which were made in 2014 need to be acted upon in the paper procurement context.

#### **Selected Recommendation’s Commonwealth Procurement Inquiry- 2014**

<b>Committee Report - July 17, 2014<sup>8</sup></b>	<b>ANAO response – September 10 2014<sup>9</sup></b>	<b>Government Response- April 30, 2015<sup>10</sup></b>
The committee recommends that during its next procurement-related audit, the Australian National Audit Office review the operation of the revised Commonwealth	ANAO audits of procurement activity typically include consideration of the operation of the procurement framework as well as entity performance against the requirement of the framework. A key element of	The Auditor General has responded directly to the Committee indicating his support for this recommendation

<sup>8</sup> Senate Standing Committees on Finance and Public Administration, ‘Report’, *Commonwealth procurement procedures*, 17 July 2014, available online @ [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Finance\\_and\\_Public\\_Administration/Commonwealth\\_procurement\\_procedures/Report/index](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Commonwealth_procurement_procedures/Report/index)

<sup>9</sup> ANAO (Ian McPhee), ‘Response to Report’, 10 September 2014, [http://www.aph.gov.au/~media/Committees/Senate/committee/fapa\\_ctte/comm\\_procure/ANAO%20Response.pdf](http://www.aph.gov.au/~media/Committees/Senate/committee/fapa_ctte/comm_procure/ANAO%20Response.pdf)

<sup>10</sup> Government (Minister Cormann), Government Response, April 30, 2015, available online @ <http://www.aph.gov.au/DocumentStore.ashx?id=2eaf76a2-10e4-457b-b36b-8bf6a6f4e264>

<p>Procurement Rules, particularly the revisions relating to the assessment of financial and non-financial costs and benefits, and provide an evaluation.</p>	<p>our procurement audits generally involves assessing how entities have determined 'value for money' including consideration of the financial and nonfinancial costs and benefits. I anticipate that this would continue to be a focus of future procurement audits and overtime that such audits will provide insight into the operation of the revised Commonwealth Procurement Rules.</p>	
<p>The committee recommends that the Australian National Audit Office, in the course of its next procurement-related audit, undertake an assessment of the application and implementation of relevant procurement-connected policies.</p>	<p>I would be pleased for the ANAO to consider including potential audits of procurement connected policies on future Audit Work Programs where these remain in operation.</p>	<p>The Auditor General has responded directly to the Committee indicating his support for this recommendation</p>
<p>The committee recommends that the Department of</p>	<p>-</p>	<p>Supported in Principle. As part of the Spring red tape</p>



<p>Finance work with the lead agencies for procurement-connected policies and the Department of Prime Minister and Cabinet to develop a whole of government annual reporting framework for monitoring of and compliance with these policies.</p>		<p>repeal day initiatives announced on 22 October 2014, all procurement-connected policies are actively being reviewed to test their currency and suitability to remain linked to the procurement framework.</p>
<p>The committee recommends that the procurement-related audit by the Australian National Audit Office to assess the application and implementation of procurement-connected policies also include an assessment of the competencies of agencies' procurement officers.</p>	<p>I would be pleased for the ANAO to consider including potential audits of procurement connected policies on future Audit Work Programs where these remain in operation.</p>	<p>The Auditor General has responded directly to the Committee indicating his support for this recommendation</p>

## Recommendation 1

### 1.1

Consistent with the Recommendations of the 2014 inquiry into Commonwealth procurement procedures (report tabled 17 July 2014), the Australian National Audit Offices' (ANAO's) response to those recommendations and the Government's response, the committee recommend the Prime Minister order the ANAO to audit the acceptability of 'value for money' justifications associated with each purchase of non-Australian made paper in the 2014-2015 FY.

### 1.2

The Committee recommend that departmental and agency procurement officers be required to justify (and make these justifications public) paper purchasing procurement decisions when they do not result in the procuring of Australian made paper and for that justification to include a full explanation on how they have considered the requirements of procurement connected policies (including the *National Waste Policy*) and Government policy (including the *Commonwealth Procurement Rules*) and the financial and non-financial costs and benefits which have contributed to the forming of their 'value for money' decisions.

### 1.3

The Committee recommends that procurement officers in general when using government funds, be required to document their 'value for money' decisions far more adequately than current arrangements require particularly when procuring imported products when there is an Australian competitor, with their documentation including how the following factors have been taken into account and costed:

-Price

- Performance standards
- Whole of life durability
- Maintenance costs
- Security of warranties
- Production standards (environmental and social)
- Viability of Australian industry and its ability to provide an ongoing source of competition to imported products
- Risk

**The impact of procurement connected policies, with particular reference to the ICT Sustainability Plan and the National Waste Policy, on securing manufacturing investment and jobs in the paper sector**

As we argued in the public hearing of the 2014 inquiry into Commonwealth procurement procedures (attachment 6) and touched upon in the section above, what is required for a level playing field for Australian industry is Government departments and agencies to complying with the requirements of procurement connected policies and the *Commonwealth Procurement Rules*.

An additional risk for local paper manufacturing workers was that the review of procurement connected policies as announced at the *Red tape repeal day on 22 October 2014* might result in the abolishment of the procurement connected policies the *ICT Sustainability Plan* (which required copy paper to be made up of 50% recycled content until July 2015 and 100% after that) and the *National Waste Policy* (which required agencies to recycle and ‘manage waste as a resource’).

We recognised the risk of this prior to the 2014 procurement inquiry even reporting. Earlier in 2014 we outlined our and the views of *Australian Paper*. We highlighted the critical nature of

these procurement connected policies for industry to the Government. This was done through the local member to the Special Minister of State at the time, who referred the matter to the Minister for Finance who referred the matter to the Minister for the Environment. These concerns were conveyed in response to the March 2014 ‘Commission of Audit’ report which recommended scrapping the procurement connected policies (see attachment 8 – relevant correspondence regarding *Commission of Audit* recommendations *National Waste Policy* and the *ICT Sustainability Plan* as outlined above)

The point about the importance of these procurement connected policies in the securing of manufacturing investment and jobs in the paper sector were subsequently reiterated by *Australian Paper* at the launch of their \$90 million deinking and recycling plant where they stated in a media release:

‘The Australian Government has specified that it will purchase 100% recycled papers from 1st July this year and we are hopeful that all Government Departments, Federal and State, will recognise the sustainability advantages of Australian-made 100% recycled paper over imports when making their purchase decisions’<sup>11</sup>

This was completely consistent with *Australian Paper*’s 2014 evidence to the procurement inquiry in which they outlined in a supplementary submission:

‘Partially in response to the *ICT Sustainability Plan* requirements, and in alignment with the *National Waste Policy*, *Australian Paper* is investing \$90 million in building Australia’s only wastepaper de-inking and recycling plant’<sup>12</sup>

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<sup>11</sup> *Australian Paper*, Media Release, ‘Major boost for Australian-made recycled paper’, 27 April 2015, [http://www.australianpaper.com.au/media/3794055/Media-Release\\_DIP-opening\\_270415.pdf](http://www.australianpaper.com.au/media/3794055/Media-Release_DIP-opening_270415.pdf)

<sup>12</sup> *Australian Paper*, Supplementary Submission, Senate reference Inquiry Commonwealth procurement procedures (2014), December 2013, p 13, available online@ <http://www.aph.gov.au/DocumentStore.ashx?id=218d9efe-83ed-4b98-a1f6-d4b3bb7b811f&subId=31807>

Given the Government had been made aware of the importance the procurement connected policies to industry, it was of some surprise and certainly disappointment that, after Senator Carr sought a status update on the ICT sustainability plan through the Senate Estimates he was informed that the plan (and the requirement for all agencies and departments from July 2015 to procure 100% recycled paper) had ceased. Our, Australian manufacturers and their industry associations reactions to the announcement of the decision to scrap the long standing policy for Government departments and agencies to be required to procure 100% recycled paper from July 2015 (made without consultation with us) is on the public record and includes the following comments:

*CFMEU*

- 'It is bad news for jobs, bad news for the Latrobe valley and bad news for the environment'<sup>13</sup>
- '...And it means Australian manufacturers will again be forced to compete head to head with paper manufacturers overseas, who often source wood from unsustainable managed forests and deforested areas.'<sup>14</sup>
- 'This issue is too important for the prosperity and liability of investment and businesses in the Latrobe Valley to just let it go.'<sup>15</sup>
- 'We're going to make sure that we work collectively as a community and bring everyone together, no cheap shots, everybody putting the best interests of the community first, that we can actually turn this around'<sup>16</sup>

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<sup>13</sup> Alex Millar: Royce Millar, Nick Toscano, Ben Schneiders, *The Age*, 'Coalition drops recycled paper promise. New jobs lost', October 1, 2015 available online@ <http://www.smh.com.au/national/investigations/coalition-drops-recycled-paper-promise-new-oz-jobs-lost-20151001-gjzcg8.html>

<sup>14</sup> Ibid

<sup>15</sup> Alex Millar: Gary Stevens, *Latrobe Valley Express*, 'Paper deal shredded at Maryvale Mill', October 5, 2015, available online@ <http://www.latrobevalleyexpress.com.au/story/3400835/paper-deal-shredded-at-maryvale-mill/>

<sup>16</sup> Michael O'Connor: Gary Stevens, *Latrobe Valley Express*, Paper fight escalates, November 23, 2015

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*Gippsland Trades and Labour Council*

- ‘The Government in making this decision has put local jobs at risk, jobs we cannot afford to lose’<sup>17</sup>
- ‘This decision shows contempt for Australian jobs and Australian workers – we have a local manufacturer, the biggest employer in the Latrobe Valley, investing in in the de-inking plant and the future. We need all levels of Government to commit to buying 100% Australian made recycled paper.’<sup>18</sup>

*Australian Paper*

- ‘Our investment was partly made on the government’s commitment to using 100 per cent recycled paper.’<sup>19</sup>
- ‘There has been no consultation with industry about this change of policy.’<sup>20</sup>
- ‘What it means is we can’t maximise the employment and environment benefits of the plant because we can’t run it at full capacity.’<sup>21</sup>
- ‘We need strong demand to be viable and when you have a situation where (the government) is walking away from that policy we find that really disturbing.’<sup>22</sup>
- ‘We need much more local support and recognition of the benefits of Australian-made recycled paper.’<sup>23</sup>
- ‘(The government) is sending a strong message - ‘we believe buying Australian-made recycled paper isn’t important’ is the message. That’s a real disappointment for us.’<sup>24</sup>

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<sup>17</sup> Steve Dodd, Secretary of the Gippsland Trades and Labour Council, Media Release, ‘Paper Deal – Jobs at Risk’ October 2015

<sup>18</sup> Ibid

<sup>19</sup> Australian Paper, Coalition drops recycled paper promise.

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Australian Paper, Paper deal shredded at Maryvale

<sup>23</sup> Ibid

<sup>24</sup> Ibid

- ‘With one stroke of a pen the government has put that investment at risk... it now seems like the Federal Government is trying to drive the paper industry out of business.’<sup>25</sup>

#### *Industry Associations*

- ‘The Victorian Association of Forest Industries (VAFI) is urging the Federal Government to reconsider its decision to abandon a policy to use 100% recycled paper in its offices.’<sup>26</sup>
- ‘This decision will have a direct impact on the Australian forest and wood products industry, particularly pulp and paper, affecting regional jobs and local economies, particularly in the Latrobe Valley.’<sup>27</sup>
- ‘The decision to make the significant invest in building this plant considered the Federal Government’s leadership in supporting procurement of locally made 100% recycled paper.’<sup>28</sup>
- ‘It is imperative that the Turnbull Government keep faith with the domestic paper industry and the workers in this manufacturing operation which is crucial to the sustainability of the Maryvale region.’<sup>29</sup>
- ‘It makes no sense for the Government to first assist this vital Australian company to establish a new recycling plant to reduce paper waste in Australia, only to remove a significant market just as it was beginning to ramp up operations.’<sup>30</sup>

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<sup>25</sup> Ibid

<sup>26</sup> VAFI, ‘Media Release’ VAFI urges Federal Government to reconsider recycled paper, Monday, 5 October 2015 available online @ <http://www.vafi.org.au/wp-content/uploads/2015/10/151005-VAFI-urges-Federal-Government-to-reconsider-recycled-paper-FINAL.pdf>

<sup>27</sup> Ibid

<sup>28</sup> Ibid

<sup>29</sup> AFPA, Media Release, ‘Turnbull Government Must Reinstate Recycled Paper Policy’ October 6 2015, available online @ <http://ausfpa.com.au/media-releases/turnbull-government-must-reinstate-recycled-paper-commitment/>

<sup>30</sup> Ibid

- ‘I don’t think the Prime Minister wants to go to climate change talks in Paris with this major environmental failure dogging his steps. This has to be rethought. This is crazy stuff.’<sup>31</sup>

The environment Minister subsequently wrote to Government Departments requesting that they use recycled paper.<sup>32</sup> He then wrote to Finance Minister Matthias Cormann proposing the Federal Government ‘adopt a commitment to use 100 per cent recycled copy paper for general office use’ and called on Minister Cormann to consider changes to the government’s stationery and office supply arrangement.

‘I seek your consideration of what amendments can be made to the (stationery and office supplies panel) arrangement to ensure that Australian Government entities use 100 per cent recycled paper, except where operational needs require the use of an alternative paper type...In addition, such an initiative would contribute towards continuing opportunities for the Australian recycled paper manufacturing industry’ Minister Hunt is reported as writing.’<sup>33</sup>

*Australian Paper* are reported as welcoming Ministers Hunt’s support for 100 per cent recycled paper, but arguing:

‘The Australian Government can only close the local recycling loop by recognising the sustainability advantages of the world class recycled copy and printing papers made here in the Latrobe Valley’

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<sup>31</sup> Ross Hampton: Phillip Hudson, *The Australian* ‘United over decision to dump 100 per cent recycled paper rule’, November 23, 2015, available online @ <http://www.theaustralian.com.au/opinion/columnists/phillip-hudson/united-over-canberra-decision-to-dump-100per-cent-recycled-paper-rule/news-story/30346b79deaf8ee7fe4ab189095d0565>

<sup>32</sup> Senate debates, Tuesday, 10 November 2015 Questions without Notice (Senator Ricky Muir to Finance Minister Cormann ‘Procurement Policy’ available online @ <http://www.openaustralia.org.au/senate/?id=2015-11-10.59.1>

<sup>33</sup> Minister Hunt: Gary Stevens, *Latrobe Valley Express*, ‘Government’s Recycled Paper Pusher’, January 11, 2016, available online @ <http://www.latrobevalleyexpress.com.au/story/3655489/governments-recycled-paper-pusher/>



The Departments of the Environment and Finance can support the National Waste Policy by making sure the environmental benefits of local recycled paper are included in ‘value for money’ procurement decisions.

Greater recognition of the advantages of local recycled paper will help reduce landfill in line with the National Waste Policy and directly support sustainable jobs in local paper manufacturing.’<sup>34</sup>

The CFMEU are not aware of any response to Minister Hunt from Minister Cormann to the letter he was reported as writing.

## Recommendation 2

### 2.1

The Committee recommend that the Government’s (until recently) long standing policy that 100% of general use copy paper purchased by Government departments and agencies from July 2015 must be manufactured from 100% recycled waste paper be reinstated as a mandatory procurement policy of the Commonwealth.

### 2.2

The Committee recommend that the *National Waste Policy* be reinstated as a mandatory procurement connected policy of the Commonwealth.

### 2.3

The Committee recommend that the *Department of Industry, Department of Finance* and *Department of Environment* work with the employers and unions in the industry and other stakeholders on guidance and then provide to procurement officers information on the financial and non-financial benefits of procuring paper made from recovered sources recycled in Australia as opposed to procuring paper made overseas. The guidance should include how

<sup>34</sup> Australian Paper: Ibid

these benefits must be subsequently factored into ‘value for money’ decisions and documented as such as per the suggested requirement outlined in recommendation 1.2.

### **Any other related matters**

In response to the CFMEU’s submission to the 2014 procurement inquiry in which we point out that when it comes to paper purchasing the WoG SOS:

‘Arrangement does not provide ‘value for money’ to the Australian taxpayer. In fact, the current arrangement has the effect of discriminating against Australian manufacturers with subsequent economic, environmental and social detriments to the Australian public and to the goal of achieving ‘value for money’.’<sup>35</sup>

The *Department of Finance* made a supplementary submission which responded:

‘In establishing the SOS arrangement, Finance conducted a ‘value for money’ assessment, in accordance with the Commonwealth Procurement Guidelines 2008, to determine if Tenderers offered ‘value for money’. The assessment took into account factors such as the Tenderers’ capabilities, price, ability to comply with government policy and capability to provide the range of goods and services requested. The SOS panel provides efficiencies and benefits through a single government approach to market and tender evaluation process, consistent contract processes and the ‘value for money’ determination.

A SOS scoping study conducted prior to an approach to market estimated a coordinated arrangement would save the government approximately \$7m per year. This figure was supported by the savings analysis completed as part of the tender evaluation, which

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<sup>35</sup> CFMEU, Submission-Procurement Inquiry, 2014, p 12.

confirmed that annual savings would be achieved. Modelling undertaken in late 2013 has verified that savings achieved through the arrangement are exceeding initial estimates.’<sup>36</sup>

However, the Department subsequently conceded that in establishing the WoG SoS panel arrangement the issue of ‘value for money’ for paper was not looked at exclusively but rather:

‘As part of the SOS tender process, a ‘value for money’ assessment was undertaken of suppliers’ offerings, which included relevant financial and non-financial considerations such as environmental sustainability and fit-for purpose. The assessment included consideration of a SOS basket of goods required to meet entities’ SOS needs.’<sup>37</sup>

Our theory (in the absence of any contrary evidence- and as confirmed by Mr Sheridan as outlined on page 11, footnote 6) is that currently price is usually the main discriminating factor which Commonwealth procurement officials are taking into account after they have selected one of the panellists in the WoG SOS to procure paper from and selected the percentage of recycled content they want in their paper (if any).

We believe that for this reason (price being the main discriminating factor) it is usually Australian made paper which is purchased from one particular panellist. In contrast it is usually imported paper sourced from Indonesia, China, Austria, Germany, Thailand, or Brazil when purchased from the two alternative panellists (as per our analysis of attachment 1). In other words, two of the panellists supply imported paper at a lower price than they supply Australian

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<sup>36</sup> Department of Finance, Supplementary Submission Senate reference Inquiry Commonwealth procurement procedures (2014), 26 February 2014, available online @ <http://www.aph.gov.au/DocumentStore.ashx?id=62fc291c-070e-4355-9afa-11a48ed7496f&subId=31800>

<sup>37</sup> Department of Finance, *Senate Finance and Public Administration Legislation Committee*, ‘Answer to Question on Notice From Senator Madigan additional estimates 2014-2015’, April 10, 2015, p 1, available online @ [http://www.aph.gov.au/~media/Committees/fapa\\_ctte/estimates/add\\_1415/finance/f15.pdf](http://www.aph.gov.au/~media/Committees/fapa_ctte/estimates/add_1415/finance/f15.pdf)

made paper whereas one panellist supplies Australian made paper at a lower price than they supply imported paper.

The behaviour by these companies is not unusual and reflects their commercial relationships and strategies. This sort of behaviour is also encouraged when ‘value for money’ is assessed on a ‘basket’ basis as per the current arrangement as conceded by Finance as above as opposed to individual goods which might be available within that basket having distinct assessments. However, the question for procurers and policy makers is (particularly if they come to the correct conclusion that the non-financial benefits of procuring Australian made paper are so great that it should be procured even if it is not quite as cheap as imported paper) whether the more expensive Australian made paper should be brought from the supplier which is charging more for it than their imported paper or whether the Australian made paper should be procured from the supplier which provides it cheaper than imported paper.

Unfortunately, information requested from the *Department of Finance* by Senator Carr which requested the value of the contracts of respective purchases (as per attachment 1) by Government departments and agencies has not been forthcoming. Despite this, it is our contention that if it had been forthcoming as requested it would demonstrate that Australian made paper, if purchased through the supplier that (according to our contention) provides it cheaper than they provide imported paper, it would be just as cheap or at least price competitive compared to imported paper procured through any one of the two alternative office supply companies in the WoG SOS panel arrangement.

Supporting this contention is the pricing information provided by the *Department of Finance* at last Senate estimates where it is suggested that for 100% recycled paper (of which in 2014-15 24% of all paper the Federal purchased was represented) the average price was \$5.88 per

ream.<sup>38</sup> We know from the information in attachment 1 that that type of paper (100% recycled) was sourced from a number of countries including Austria, Germany, Indonesia and Australia.

It is our advice that the office supply company which we believe provides Australian made paper at a lower price than they provide imported paper would be able to match this average price of \$5.88 per ream of 100% recycled paper through the supply of Australian made 100% recycled paper in a contract for the Government's current usage of 4,000 tonnes of office paper per annum.

The cost implications of transition to 100% recycled made paper (which was promised and spurned a decision to invest in recycling plant {as above}) are not insignificant based on 2014-15 FY procurement performance of Government where only 24% of paper purchased was made from 100% recycled content. The Budget impact for the Government would be an increase in Government spend of approximately \$1.5 million per year (based on an analysis of attachment 1 and the footnote 36). However the non-financial benefits of buying paper made from waste paper recycled in Australia would be significant and if the cost of the change to 100% recycled paper to the Budget was offset by the non-financial benefits of procuring more recycled paper from Australia, it would be justifiable.

To just take one example, purchasing 4,000 tonnes of copy paper procured from the Maryvale deinking plant, which is part of *Australian Paper*, the largest private sector in the Latrobe Valley

<sup>38</sup> Mr Sheridan, the Department of Finance, Tuesday, 20 October 2015, p 159-160: Gave a breakdown of percentage of different types of paper (in regards to recycled paper) procured across Government- this totals about 4,000 tonnes.

carbon-neutral paper, (20 per cent recycled)	9%	\$4.34
carbon-neutral virgin paper	16%	\$4.17
100 per cent recycled	24%	\$5.88
80 per cent recycled,	1 %	\$6.00
50 per cent recycled	46%	\$4.69
10 percent recycled	<1%	\$4.50
Virgin	4%	\$7.11

would divert 6,400 tonnes of waste paper otherwise destined for land fill or for export and there would be associated carbon emissions savings associated with it. The cost of land fill fees at Morwell are \$163.75/ tonne meaning that disposal costs would be over \$1 million per annum (if disposed at that basis). Carbon emissions for 4,000 tonnes of paper in landfill would be 10,000 tonnes- worth \$139,500 under the Government's emissions reduction fund (which prices carbon at \$13.95 tonne) and the equivalent of an additional 3,500 extra cars on the road. There would also be carbon emissions savings from not importing paper (which under current circumstances where 35% of paper used by the Federal is imported results in shipping emissions of 1218 tonnes per annum which under the Government's emissions reduction fund amounts is at an equivalent cost of \$17,000 per annum) Australian businesses and the wider community are currently burdened by all of these costs which Government would effectively remove if the course of action suggested is taken.

There would be other 'priceless' benefits associated with taking pressure off forests from countries with less robust forestry practices than Australia where Commonwealth procured paper is currently sourced such as Indonesia, China, Brazil, Thailand, countries in Europe and their wood source countries (like Russia) But the main benefit would be creating a market for paper recycled in Australia in support of a 'closed loop' recycling system and helping secure a piece of state of the art infrastructure made possible by the investment in the deinking plant at Maryvale.

In addition, the suggested course of action being taken would result in a 35% increase in sales to the Federal Government by Australian manufacturers. The result would be an increase in reams sold produced locally to Government by 560,000 reams per annum (representing approximately \$3.3 million in additional sales). We know from the *Western Research Institute* (see attachment 3, p 5) that for every ream of paper sold by Australian manufacturers the Government receives back \$1.81 in various Commonwealth taxes. Although this would not be able to be taken into account due to Australia's international obligations according to the

Government, the result is the equivalent to over \$1 million in taxation revenue to Government compared to business as usual. In contrast the result of not taking what the World Trade Organisation considers as 'legitimate' non-financial costs and benefits that are able to be influence 'value for money' based procurement decisions (i.e. environmental sustainability) into account in procurement decisions tilts the playing field against Australian industry meaning and resulting in this potential taxation revenue being foregone by the lack of the provision of the full, fair and reasonable participation being extended to Australian industry.

### **Recommendation 3**

3.1

The committee recommend that the Prime Minister orders the ANAO (as part of the project outlined in recommendation 1.1) to audit Government paper procurement and determine if the Whole of Government Stationery and Office Supply contract (WoG SoS) provides barriers to Australian industry participating in the market fully, fairly and reasonably.

3.2

The committee recommend that the Department of Finance takes advice from the ANAO in determining whether the WoG SoS contract be extended by 1 year, as per the extension options for the arrangement, as opposed to having the opportunity to exercise the extension option at its own discretion.

3.3

The Committee recommend that as part of the ANAO's suggested audit (outlined in 1.1, 3.1 and 3.2) it provide instruction to the Department of Finance on whether (based on the results of the audit) the department should seek a quote from an office supplies company for a Whole of Government supply arrangement for Australian made 100% recycled paper. This advice might be provided in recognition of the environmental benefits of procuring paper made from waste paper recycled in Australia instead of paper made from waste paper recycled overseas, consistent with the National Waste Policy and requirements of Commonwealth Procurement

Rules and the potential financial savings to the taxpayer of such an arrangement compared with maintaining a panel arrangement for paper supply which results in different suppliers providing 100% recycled Australian made paper at different prices.

### **Additional comments**

The requirement of recognising the benefits of buying Australian made paper should also be extended to external printing contracts ‘where possible’ as per was required by the *ICT Sustainability plan*. The potential impact of this is significant given the Australian Government uses considerably more paper for external printing (for example pamphlets, reports, materials, ballot materials) than it does for internal office use (copy paper).

### **Recommendation 4**

#### 4.1

The committee recommend that as per the requirements of the former long standing policy the *ICT sustainability plan*, paper manufactured from 100% recycled sources be used for Government external printing (including for electorate/ ballot materials) ‘where possible’ and the same factors (i.e. requirements of the *National Waste Policy*) be required to be taken into account by procurers when making specifications to their printers as departmental procurers of copy paper are required to undertake.

#### 4.2

The Committee recommends that the ANAO in their audit also look at what paper is currently being specified by Departments and Agencies for external printing and how ‘value for money’ decisions around these specifications are being assessed as per the process outlined in 1.1.



Thank you for considering our submission

### **List of Attachments**

1. Senate Finance and Public Administration Legislation Committee, Answers: Additional Estimates 2015-16. Finance Portfolio 9 February 2016 Department/Agency: Department of Finance, Outcome/Program: 2/2.5, Topic: Purchasing of, copy paper Senator: Carr, Question reference number: F128, Type of question: Written
2. Analysis FY Departmental Paper Use, Selected Departments- Based on F128
3. CFMEU Submission to the Finance and Public Administration References Committee Inquiry into Commonwealth Procurement Procedures December 2013
4. Supplementary Submission to the Finance and Public Administration References Committee Inquiry into Commonwealth Procurement Procedures re Copy Paper.
5. Supplementary to the Finance and Public Administration References Committee Inquiry into Commonwealth Procurement Procedures re envelopes/ external printing/ tissue papers
6. Official Committee Hansard, Senate, Finance and Public Administration References Committee Inquiry into Commonwealth Procurement Procedures, 28 April 2014
7. Additional Estimates, Finance and Public Administration Legislation Committee, 24 February 2015 & Supplementary Estimates, Finance and Public Administration Legislation Committee, 20 October 2015
8. Correspondence and responses regarding the importance of procurement connected policies the ICT Sustainability Plan and the National Waste Policy following publicising of the 'Commission of Audit'