



**SUBMISSION TO THE FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE
INQUIRY INTO COMMONWEALTH PROCUREMENT PROCEDURES**

23 December 2013

Introduction

The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission to the Committee Inquiry into Commonwealth procurement procedures.

AFPA is the peak national industry body representing the Australian forest, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

The issues outlined in this submission apply to both manufactured wood (e.g. sawn timber, engineered wood products) and paper based products, noting the high level of consumption of paper and tissue products by the Australian Government on a daily basis. AFPA recognises the proud social, economic and environmental record of the Australian wood and paper products industry and the inherent environmental strengths of these products as a renewable resource with a high propensity for recycling, a low carbon footprint and responsible sourcing from sustainably managed forests and fibre waste streams.

With regard to Commonwealth procurement of paper based products, AFPA has previously advocated for more transparent procurement policies and practices which recognise the high environmental and social standards from domestic suppliers, as well as the significant economic and social benefits from locally manufactured products. These issues are discussed in more detail below.

Economic, social and environmental benefits of utilising Australian goods and services

Pulp and paper industry

The economic and social benefits of the Australian pulp and paper industry are significant, providing many skilled jobs in addition to economic activity and income in regions across Australia and growth to the national economy. The Australian pulp and paper industry directly employs 15,000 people in both outer metropolitan and regional areas and supports a further 22,000 indirect jobs. The sales turnover for the pulp and paper sector averages around \$9.6 billion per year and the wood and paper products industry collectively represents around 5 per cent of total manufacturing value added in Australia.

For example, Australian Paper is the largest private employer in Victoria's Latrobe Valley, and contributes more than \$750 million annually to Australia's GDP and supports over 5,900 flow-on full time jobs. The construction of Australia's only de-inked recycled paper plant at the Australian Paper Maryvale mill is also supporting 950 direct and indirect jobs during construction and around 250 new jobs ongoing, as well as contributing \$160 million in value to the economy. This project will produce 50 000 tonnes of recycled pulp each year, diverting up to 85 000 tonnes of wastepaper that would otherwise end up in landfill.

Similarly, the Kimberly-Clarke Australia tissue mill in Millicent, South Australia, directly supports 400 employees and contractors as well as up to 1000 direct and indirect jobs in the region.

The Norske Skog paper mill in Boyer, Tasmania, similarly supports over 300 direct and 900 indirect jobs as part of its \$84 million investment in diversification to enable production of coated paper grades, suitable for magazines and catalogues. This project will replace 140 000 tonnes of currently imported paper, improving our net trade position.

The paper industry in Australia, as a capital intensive industry, has invested heavily over time in pulp and paper manufacturing and related activities such as bioenergy and cogeneration, including over \$1 billion in capital expenditure respectively at major sites such as the Australian Paper facilities in Maryvale, Victoria, and Visy facilities in Tumut, New South Wales.

Wood products industry

The Australian wood products industry includes the production of sawn timber and engineered wood products (EWPs) such as medium density fibreboard, particleboard, laminated veneer lumber and plywood, which are used for a wide variety of building, construction and other uses. Collectively these industries have a sales turnover of over \$11 billion, supporting 40 000 direct jobs and a further 60 000 indirect jobs.

A major feature of the wood and paper products industry is its geographic spread and significance to the economic and social well-being of many rural and regional communities, through local growing, harvesting, processing and marketing of forest products and flow-on effects to other suppliers. The forestry industry, which provides wood and fibre resources for domestic processing, directly supports a further 11 000 jobs through forest growing and harvesting activities. The major forest growing and processing regions in Australia include:

- Tasmania;
- south-west Western Australia;
- south-east South Australia and south-west Victoria (i.e. the 'Green Triangle');
- southern and central Victoria;
- north-east Victoria
- coastal and northern New South Wales;
- south-western slopes of New South Wales; and
- south-east and coastal Queensland.

Australian manufacturers have produced annually around 5 million cubic metres of sawn timber and 1.5 million cubic metres of EWPs in recent years. In 2012-13, imports of sawn timber were 759 000 cubic metres and imports of EWPs were 495 000 cubic metres including 278 000 cubic metres of plywood mainly from Asia. Given the high volume of imports and competitive pressures faced by domestic producers in terms of a high Australian dollar and high domestic environmental and social standards, it is essential that the regulatory framework for non-conforming products (e.g. failure to meet minimum Australian standards for environment, product use and safety) be rigorously applied including through procurement policies. These issues with respect to non-conforming building products, particularly for imported EWPs, are discussed in more detail below.

Commonwealth procurement of paper products

AFPA recognises that the Australian Government through its various departments and agencies is one of the single largest consumers in Australia of tissue and printing and communications papers. The Australian Government purchases annually:

- approximately 6,500 tonnes of copy paper;
- an estimated 50,000 to 60,000 tonnes of paper used for external printing, such as publications, pamphlets, forms, brochures and envelopes; and
- around \$100 million of tissue paper.

The Australian Government's procurement decisions can therefore have a major impact on local manufacturers as well as set precedents for wider Australian consumers. Australia is also a medium sized open economy with an annual trade deficit in wood and paper products of around \$2 billion per annum, with a large proportion of imports comprising printing and writing papers. AFPA therefore considers it important that the risks from inappropriately

sourced products, in terms of the environmental standards of paper and fibre based products, are taken fully into account.

Environmental benefits

There are a range of broad policies and guidelines to assist with the environmental aspects of Commonwealth procurement decisions, including (not exhaustive) the:

- National Waste Policy: Less Waste, More Resources;
- Australian Government Information and Communication Technology (ICT) Sustainability Plan 2010-2015 (the 'ICT Plan');
- Australian Government Sustainable Procurement Guide; and
- Australian Government Packaging Covenant.

AFPA supports the principles and strategies of the overarching Australian Government policy framework to promote sustainable outcomes in the sourcing of consumables such as tissue and paper based products. However, AFPA notes that:

'there is currently no formal whole-of-government mechanism or requirement for entities to report on the uptake of sustainable procurement' (Sustainable Procurement in the Australian Government Report 2013).

This lack of transparency and formal requirements to report back on sustainable procurement practices on a whole-of-government basis is of significant concern to AFPA, as there exist a range of sustainability issues with respect to the sourcing of internationally traded goods such as paper based products. Furthermore, the lack of a consistent and measurable approach across Australian Government departments and agencies makes it difficult to ensure that these guidelines are actually being applied and met.

The inherent environmental strengths of paper include the fact that it can be made from renewable and recyclable sources with additional carbon sequestration and land management benefits. However, if not conducted on a sustainable basis, there exist a number of significant issues related to forestry practices and the sourcing of environmental sustainable paper products. From a global trading perspective, these issues can include:

- land use conversion for fibre supply (i.e. deforestation or conversion of natural forests to plantations);
- poor forestry practices (i.e. extent of government regulation and voluntary certification, addressing such issues as forest yield and health, biodiversity and community consultation),
- manufacturing practices (e.g. use of chemical, water and energy inputs);
- illegal logging and trade in wood and paper products; and
- the carbon emissions footprint of products, including transport impacts.

Given the broad range of issues and differences in environmental standards operating in many countries, the risks in ensuring sustainable paper procurement are becoming more complex. Similarly, the strategies and tools for managing such risks need to be just as comprehensive. In this regard, a useful Guide – *the Independent Australian Sustainable Paper Procurement Guide* - has recently been produced (refer: <http://www.industryedge.com.au/publications.php#11>). This Guide is a good example of the type of guidance materials that could assist the future development and implementation of sustainable procurement practices. Importantly, the guide notes that:

The major issues that impact the perception of the sustainability of printing, writing and communication papers are 1. the source of fibre (forests, plantations, recycled fibre) and the related issue of land use; 2. The use of energy in the manufacture of paper and the related emissions and 3. legality issues, including those described in international covenants and agreements. These risks need to be addressed in paper procurement policy.

(Industry Edge 2012, *Independent Australian Sustainable Paper Procurement Guide*, page 4).

A similar guide has been prepared with respect to assessing and dealing with the risks associated with the procurement of pulp and tissue products in Australia (refer: http://www.fitzpatrickwoods.com.au/docs/tissue-laundering_risk-analysis_feb13.pdf).

For office copy paper, it is clear that the current ICT Plan deals largely with issue 1 (the source of fibre) through the mandatory environmental standard (ES4) for recycled content office copy paper and guidance material on the role of internationally recognised sustainable forestry stewardship organisations for virgin fibre. AFPA supports the recognition in sustainable procurement practices of either the Forest Stewardship Council (FSC) or Program for Endorsement of Forest Certification (PEFC), which both provide an internationally recognised and accredited scheme for sustainable forest management and chain of custody certification.

However, the ICT Plan does not address broader issues regarding energy use and carbon emissions or the important issue of trade in pulp and paper products that are illegally sourced for the broad range of paper products used in Australia.

Illegal logging

The Australian Government has recently passed the *Illegal Logging Prohibition Act 2012*, making it a criminal offence to ‘knowingly, intentionally or recklessly import or process illegally logged timber’. It has been estimated Australia imports around \$400 million of wood and paper products from illegal sources, which not only undermines the competitiveness of legally sourced and sustainable producers, it contributes to forest degradation and poor sustainability. This new Act (and associated regulations now being

developed) reflects similar legislation in the United States and Europe to address illegally sourced imports of wood and paper products from high risk countries and regions such as Africa and Asia. AFPA would make the recommendation that Commonwealth procurement policies and procedures should acknowledge these types of significant risks for paper based products and consumables. It is also important to acknowledge that due diligence requirements for addressing these risks are being developed by the Australian Government under new regulations to take effect from November 2014.

Energy use and carbon emissions

Another important environmental factor in assessing the sustainability of products is their carbon footprint, taking into account the energy inputs and carbon emissions from their production and distribution.

The Australian pulp and paper industry has high standards of corporate social responsibility through energy and carbon emissions monitoring and reporting, including mandatory and voluntary requirements such as under the National Greenhouse and Energy Reporting (NGER) and Energy Efficiency Opportunities (EEO) schemes. The Australian Government's EEO program encourages large energy-using businesses to improve their energy efficiency. It does this by requiring businesses to identify, evaluate and report publicly on cost effective energy savings opportunities.

Importantly, the Australian Government has also developed the National Carbon Offset Standard (NCOS) from 1 July 2010, based on the earlier Greenhouse Friendly scheme, which provides national consistency and consumer certainty in voluntary carbon markets for claims of carbon neutrality. The NCOS provides minimum standards for calculating, auditing and offsetting emissions, whereby firms can offset emissions through energy saving technologies and carbon sequestration projects. AFPA would argue that procurement policies should include the NCOS as a minimum standard for products claiming to be carbon neutral, so as to better align procurement with the Government's overall sustainability agenda and integrity standards.

Transport impacts and local sourcing of products

The Australasian Procurement and Construction Council (APCC) was formed in 1967 and is the peak council of departments responsible for procurement, construction and asset management for the Australian, State and Territory governments and the New Zealand Government. In its Sustainable Procurement Guide for Office Paper (2011), the APCC recommends that the transport impacts of fibre sourcing should be taken into account as part of fully informed decisions on material sourcing, including a recommendation to:

Procure paper from suppliers that can demonstrate initiatives to reduce transport intensity associated with fibre sourcing and encourage the use of locally sourced fibre.

The APCC Guide noted that around 70 per cent of pulp and paper products used in Australia are imported with associated transport impacts from the distribution of pulp and paper products.

Despite these recommendations, AFPA is concerned that transport impacts are not adequately recognised or accounted for within the overarching sustainable procurement policy framework adopted by the Australian Government.

Ratio of Australian goods versus imported goods utilised by the Commonwealth procurement

Office copy paper

AFPA has been advised by the Australian Government Procurement Coordinator that with respect to the 84 copy paper products sourced under the whole-of-government Stationary and Office Supplies (SOS) arrangement, 45 per cent of these products are sourced from Australia, 36 per cent from Europe and 19 per cent from Asia. This implies a copy paper ratio of 1.2 imported products to every Australian product used by the Australian Government.

Total procurement

Overall, Australian Government agencies in 2011-12 entered into contracts for procurement of goods valued at \$9.8 billion with Australian suppliers and \$8.8 billion with overseas suppliers (Department of Finance and Deregulation, 2013)¹, producing a ratio of 0.9 imported goods to every domestically supplied good.

This implies that for copy paper, Australian Government agencies are procuring 25 per cent more imported goods for every domestic good than for the average of total goods sourced. AFPA believes such an outcome reflects a failure of Australian Government agencies to fully implement the stated goal and aims of the Commonwealth Procurement Rules, particularly with respect to assessing 'value for money' and environmental sustainability for paper products.

Operation of procurement divisions of departments and agencies, including oversight and scrutiny, costs, and requirements relating to transparency and information-sharing.

From practical experience, AFPA members have noted the relatively narrow application or interpretation of the 'value for money' criterion outlined in the Commonwealth Procurement Rules (CPR). The CPR provides both mandatory and good practice rules for officials in performing duties in relation to procurement, including a key consideration of achieving 'value for money'. The CPR clearly states that:

¹ Department of Finance and Deregulation (2013). Data mining and analysis of AusTender data 2011-12, February.

4.5 The price of the goods and services is not the sole determining factor in assessing value for money. A comparative analysis of the relevant financial and non-financial costs and benefits of alternative solutions throughout the procurement will inform a value for money assessment. Factors to consider include, but are not limited to:

- a. fitness for purpose;*
- b. potential supplier's experience and performance history;*
- c. flexibility (including innovation and adaptability over the lifecycle of the procurement);*
- d. environmental sustainability (such as energy efficiency and environmental impact); and*
- e. whole-of-life costs.*

AFPA is aware that departmental paper contracts have been awarded to overseas suppliers on the narrowest margins of price competitiveness. For example, a contract in the order of \$750,000 has been previously awarded to an overseas supplier on the basis of a 1 per cent price differential. Such narrow margins highlight the many challenges faced by domestic manufacturers and the issue as to whether the full suite of relevant non-financial and environmental sustainability factors have been adequately considered in assessing 'value-for money'.

AFPA recommends a more thorough application of the 'value for money' criterion to ensure a more level playing field for domestic and imported products, including environmental sustainability and the net cost to departments on a whole-of-Government basis.

Australian paper manufacturers previously considered this issue as part of the Pulp and Paper Advisory Group (PPAG) established in 2012. The PPAG recommended that the Australian Government establish a pilot program for the paper products sector to implement the full suite of factors to be considered under the 'value for money' criterion. The trial was intended to ensure compliance with all regulated Australian standards and required procurement conditions, including environmental factors and the net costs of supply on a whole-of-Government basis. The PPAG identified the fact that Commonwealth procurement policies generally failed to consider the net cost to Government from domestic suppliers after tax revenues and charges to governments were taken into account, as well as important flow-on employment and benefits to the economy and local communities.

For every 500 sheet A4 ream of Australian made copy paper, which retails at a price of approximately \$5 per ream, for example, around \$1.81 is returned to government revenues in the form of taxes and charges (Western Research Institute 2012). Similarly, if the paper used for the large volume of external printing by the Australian Government (i.e. 58 000

tonnes per year) were met by Australian Paper, this translates to a potential return to Government of about \$42 million per year, based on a transfer payment of \$724 per tonne².

The PPAG considered the paper industry highly amenable for the implementation of a pilot program, given the small number of large domestic suppliers and high level of transparency with respect to environmental standards and commitment to the process.

Similarly, the non-financial considerations of 'value for money' in the CPR include the concepts of environmental sustainability and whole-of-life costs. The Department of Finance advises that sustainable procurement practices can be demonstrated by including strategies that reduce end-of-life disposal, encourage sustainable solutions and measure and improve sustainability throughout the life of the procurement. The Australian Government recognised the sustainability advantages of locally based recycling by providing Australian Paper with \$9.5 million of co-funding for the Maryvale recycling plant which is now under construction and as mentioned, will divert up to 85,000 tonnes of waste from Australia's landfill each year. This investment meets all of the strategies for sustainable procurement practices.

Wood products standards

Given the high international trade in wood products and varying standards of environmental and product integrity of imported goods into Australia, it is essential that the procurement framework for the Australian Government adequately recognises these issues in contracting for major building and materials projects. The Australian Government is a participant in the building and construction industry, with an expenditure in 2011-12 of \$4.5 billion in the 'Structures and Building and Construction and Manufacturing Components and Supplies' segment (Department of Finance and Deregulation, 2013).

AFPA is concerned about the risks of sub-standard and non-conforming building products, as highlighted by a recent report into non-conforming products (NCPs) used in the building and construction sector (Australian Industry Group 2013)³. This report identifies gaps and weaknesses in the conformance framework through inadequate surveillance, verification and enforcement, and outlines the results of a national survey that found that 92 per cent of company respondents reported NCPs in their supply chain.

In the case of EWPs, the report points to the prevalence of NCPs in the structural plywood market. The Engineered Wood Products Association of Australasia (EWPAA) reported: a lack of testing to Australian standards even though contracts may require this; formaldehyde used in resin systems; watered down resins; a lack of labelling, incorrect and fraudulent labelling; and understrength products. The EWPAA reports that their market surveillance

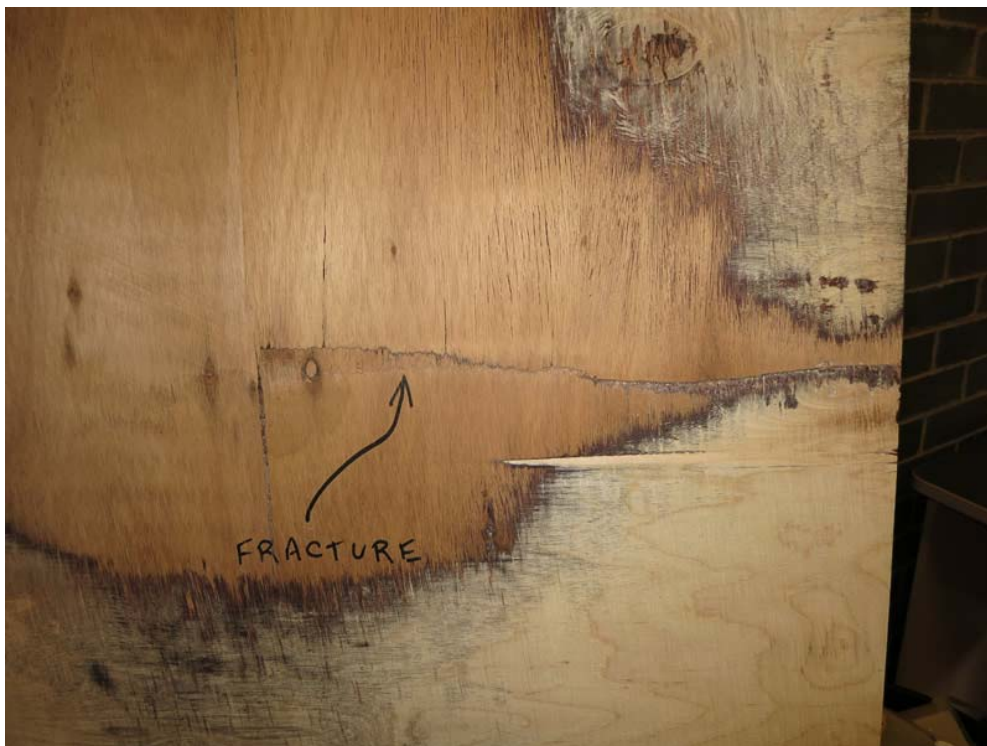
² Western Research Institute (2012). Economic impact report: Australian Paper, September.

³ Australian industry Group (2013). The quest for a level playing field: the non-conforming building product dilemma.

and targeted check testing over the past 12 months has resulted in approximately 70% of samples failing to meet safety standards. Respondents reported that the NCP volume and the number of organisations responsible for placing it onto the market, are both growing (Australian Industry Group 2013).

The EWCAA administers a Quality Control and Product Certification program for product predictability, reliability and durability, and has routinely tested imported products against their stated compliance with Australian standards. For example, samples of imported formwork plywood were recently assessed against the F17 and product standard AS6669 with 50% of samples breaking well beneath the loads that the supplier claimed were fit for purpose. These failures led to further investigations that showed the core veneers to contain 'non-structural' end joints which are totally prohibited under the Formwork Plywood Standard AS6669 (Figure 1).

Figure 1. Imported plywood formwork that failed compliance tests against the Australian standard



Source: EWCAA.

The risks of NCPs in building projects (e.g. plywood, steel, plastics, electrical, glass and aluminium) is a significant issue in terms of workplace health and public safety as well as the direct economic costs of product failure. AFPA advocates a stronger role by the Australian Competition and Consumer Commission (ACCC) with respect to enforcement of compliance with Australian environmental and product safety standards, as well as through the Commonwealth Procurement Rules (CPR) as a market leader. It is critical that the

Australian Government agencies more rigorously implement the 'value for money' criterion around fitness for purpose and potential supplier's experience and performance history.

Life cycle assessment of building materials

The significant potential for the forest product industries to contribute to climate change mitigation was acknowledged in the 4th assessment report of the International Panel on Climate Change (IPCC), which stated:

A sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.⁴

AFPA notes the significant body of research showing the potential for reductions in greenhouse gas (GHG) emissions from the forest, wood and paper products industry. This research has shown that sustainably managed forests and forest product industries can make a positive contribution to reducing or abating GHG emissions. The major pathways for emissions abatement include:

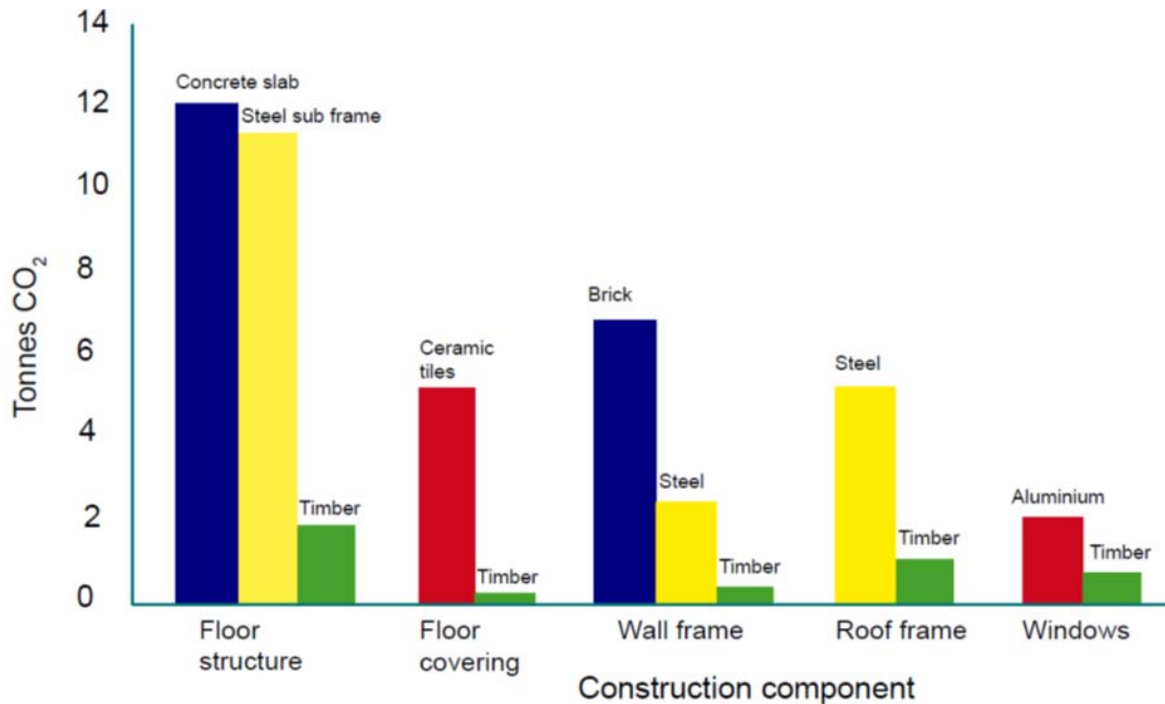
- the carbon sequestered in growing forests;
- the carbon stored in harvested wood products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre based products that have a substantially lower emissions footprint; and
- the use of woody biomass for renewable energy, thereby displacing fossil fuels.

Given the role of harvested wood products (HWPs) as a carbon store and their substitution effects, there is a need for more appropriate implementation of life cycle inventory (LCI) and life cycle assessment (LCA) with respect to procurement of building materials. By tracking the inputs and outputs for each stage of production and consumption, the LCI of a product can be traced from cradle-to-grave, including in-service, recycling and landfill. Full life cycle accounting can identify the low embodied energy of wood versus other products (see, for example, Figure 2), which is important in terms of the use of wood in reducing emissions in housing and non-residential construction⁵.

Figure 2. Greenhouse gas emissions in the manufacture of building materials used in the average family home

⁴ Nabuurs, G.J., Masera, O., Andrasko, K., Benitez-Ponce, P., Boer R, Dutschke, M., Elsidig, E., Ford-Robertson, J., Frumhoff, P., Karjalainen, T., Krankina, O., Kurz, W.A., Matsumoto, M., Oyhantcabal, W., Ravindranath, N.H., Sanz Sanchez, M.J., and Zhang, X. (2007). *Forestry (9)*, in *Climate Change (2007): Mitigation. Contribution of Working Group III to the Fourth Assessment report of the Intergovernmental Panel on Climate Change*. (Metz B., Davidson O.R., Bosch P.R., Dave R and Meyer L.A. (eds.), Cambridge University Press, UK, and New York, USA.

⁵ Lippke, B., Oneil, E., Harrison, R., Skog, K., Gustavsson, L. and Sathre, R. (2011). Life cycle impacts of forest management and wood utilization on carbon mitigation: knowns and unknowns. *Carbon Management 2*: 303-333.



Source: Forest and Wood Products Research and Development Corporation (FWPRDC) and CRC for Greenhouse Accounting (2006).

AFPA recommends that Australian Government agencies more adequately consider and implement LCI and LCA assessments, including the carbon emissions profile of alternative materials on a whole-of-life procurement basis, as part of the environmental sustainability provisions of the Commonwealth Procurement Rules (CPR).

Trade policies

AFPA recognises the interaction of Australia’s public procurement policies and international trade agreements to avoid discrimination by Government on the grounds of country of origin.

AFPA supports a level playing field in terms of global trade and action on anti-dumping behaviour, as well as adherence to accepted environmental and social standards. The commitment to reciprocal undertakings with major trading partners is important, particularly in the case of those countries from which the majority of paper imports arise (including China, Thailand and Indonesia). AFPA recommends that the Australian Government ensure free trade arrangements include reciprocal environmental and social standards and compliance measures, including a commitment to transparent procurement policies adopted by the Governments of Australia and our major trading partners.