

**IMPEDIMENTS TO
INDUSTRY GROWTH,
DEVELOPMENT & JOBS
INTO THE NEXT
MILLENNIUM**

*A SUBMISSION TO THE HOUSE OF
REPRESENTATIVES STANDING
COMMITTEE ON PRIMARY
INDUSTRIES AND REGIONAL
SERVICES ON BEHALF OF THE
NSW FOREST INDUSTRY.*

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EXECUTIVE SUMMARY

The NSW Forest Product Association believes that as a consequence of changes over the past decade, and with the emergence of Regional Forest Agreements, accepted by the main-stream community and by our Parliamentarians, future impediments to growth of the industry will be redefined as consisting of:

- **Taxation Issues**
- **Port/Road and Rail Infrastructure**
- **Markets**
- **Research and Development**
- **Continued supply monopolies by State Agencies**
- **Resource levels**
- **Worker's Compensation Costs**
- **Excessive Legislation, Regulation and Environmental Compliance requirements**
- **Lack of technical and further education about the benefits of timber construction and utilisation**
- **Inadequate community education programs and insufficient action to correct the wrong public perception of the benefits (social, economic and environmental) of ecologically sustainable forest operations**
- **Inadequate School Education Programs (leading to a continued imbalance between reality and perceptions amongst future voters/decision makers)**

Resolution of these issues requires both Government and Industry action. The goal for the NSW Industry is a politically benign landscape operating upon ecologically sustainable development principles, technology, investment and multi-skilled job creation

Real economic development in country regions will always be based on the economic resources available - both human and natural - together with the established infrastructure such as towns, transport networks, water and power supplies, and social services such as health and education. It is only through effective use of available resources that sustainable economic development can occur, with the resultant benefits for the regional community of jobs, incomes, and economic welfare. Forested lands, native, softwood, managed and plantation deliver those resources.

Role of the Timber Industry in Regional Economic Development

The timber industry of NSW is based on a major natural and renewable resource available to several regional economies - the native forests of the State. These forests are increasingly being supplemented with plantations of native hardwoods, and exotic softwood plantations.

Economic Contribution

In NSW, the forest products industry has been assessed as providing a major contribution to the economies of the country regions. In 1993/94, the industry was responsible for the direct employment of nearly 21,000 people, and for the provision of nearly \$590 million in wages (Margules et al, 1995). The industry generated a total gross output valued at over \$2 billion, and contributed over \$1.1 billion in value-added to the State's economy.

Employment – Productivity

Overall, the industry supports the employment of nearly 43,000 persons, and the generation of more than \$2.1 billion in value-added. This represents 1.8% of all employment State-wide, and 2.0% of Gross State Product – and a very much higher proportion of employment and value-added in the non-metropolitan regions of the State. The hardwood industries make a vital contribution to the coastal regions of the State – in these regions, each dollar of initial log value results in \$12.50 in total output from the regional economy.

Wood Supply

Australia's role as a supplier of sustainable wood fibre to the Pacific rim countries looks promising, despite current economic downturns in several Asian countries. The unique character of Australian hardwoods allows access to markets in which other products cannot compete - certainly not at equivalent price levels, nor with the assurance of production from sustainably managed forests.

Tourism

Opportunities for tourism exist right now within timber producing managed forests, which have created the access for tourism. Real

regional tourism opportunities have been lost due to lack of infrastructure.

Coastal areas are tourism oriented, but inland no money has been spent.

More importantly, the timber industry believes that all activities can exist together - jobs in forest and jobs in tourism are not mutually exclusive. The existence of demonstration operations, show-casing Australia's sustainable forest management to the world, offers an additional range of forest-based experiences for the visitor, in addition to the experiences offered by forests held in conservation reserves. Land use allocations for forests should be balanced - regional communities will only lose if such allocations place undue emphasis on only one possible use.

INDUSTRY GROWTH

Our analysis has indicated that in 1997/98, the total of all activities based on native forests in NSW indicated:

- **Gross Output of nearly \$600 million**
- **Over \$425 million in value-added (net regional product)**
- **Over \$256 million in additions to household income levels**
- **Over 9,600 jobs**

Activities based on the native forests of the state therefore provide a very significant component of the regional economy.

The hardwood milling sector alone in the Upper and Lower North East of NSW (including log supply and milling) provided :

- ❖ **Gross Output of over \$255 million**
- ❖ **\$176 million in value-added (net regional product)**
- ❖ **Over \$70 million in additions to household income levels**
- ❖ **Over 2,800 direct jobs**

The hardwood milling activities, together with the closely linked secondary processing activities, directly contributed the following to

the economies of the Upper and Lower North East regions in 1997/98:

	Output	Value-added	Incomes	Employment
UNE	174.0	105.1	46.7	2,021
LNE	318.1	160.8	80.0	3,458
TOTAL	492.1	265.9	126.7	5,479

With a total value of output of nearly \$500 million, the hardwood processing industry generates nearly \$266 million in value-added for the region.

This represents some 54% of the total value of output generated. Over \$126 million is contributed to household incomes in the region, and employment is provided for nearly 5,500 individuals. The hardwood industry is an important part of the economy, in a region which has been identified as suffering some degree of socio-economic disadvantage compared to averages for other regions within the State.

Without the current activities of the industry, around 9,750 persons would not have jobs, and real economic wealth would be nearly \$500 million lower.

Eden Native Forest Management Area

In 1996, the Eden region produced about one-quarter of the State's hardwood, and the gross value of output of the region's hardwood industry was estimated at around \$65 million in 1996-97. This total output was made up of:

Forestry management	\$8 million
Logging	\$10 million
Processing operations	\$47 million.

This industry generated expenditure worth around \$23 million each year, with wages and salaries contributing over \$10 million within the region.

INFRASTRUCTURE REQUIREMENTS

An essential element for removal of impediments is recognition of the need to promote significant infrastructure improvement in Country Regions.

For Eden this includes facilitating expansion of the Eden wharf as part of the intended "Pratt" development in Tumut.

In Northern NSW expansion of Port facilities in Yamba and/or re-definition of Port access in Newcastle could stimulate both further wood chip exports and an expansion of existing exports of Plywood with creation of new European/American markets for flooring and other decorative timber products, including furniture.

Across NSW evidence exists that sufficient resource is available to establish "mini" or "boutique" pulp and paper mills, aimed specifically at reducing our imports of timber and paper products. Two plants in NSW alone could reduce by 2/3 the current \$780 million paper import bill. (A detailed submission is available identifying resource and opportunities, if required)

Facilitation of improved truck access through the introduction of B-Double Trucks would also reduce Industry costs and stimulate re-investment.

ANALYSIS

The industry has been increasing its contribution to the economy, despite major reductions in the level of resource provided from public forests. The current (1997/98) impacts can be compared to the assessment made for 1993/94 (Margules, 1995) of the economic impact of the timber based industry of NSW.

A comparison of past industry performance levels has been completed, which indicates that the total value of output of the industry has increased by one-third over the four year period between these assessments. (1994-1998) Employment has also increased, although by a lower proportion of just under 26%.

The industry has therefore been adjusting to reduced supplies of resource from public forests - by increased supplies from opportunistic harvesting of private forest, and by restructuring to changed products and markets that yield higher returns.

Significantly, there is clear evidence that the contractual and government policy driven requirement for "value adding" has been met, and exceeded, by the Industry.

In order to maintain this growth, and maintain the level of contribution that it can make to the regional economies, the industry is proposing that an increased volume of resource should be made available from public forests. (native forests, indigenous & softwood plantations).

Growth of the resource base managed on a sustainable basis is the only methodology that can be relied upon to deliver the requisite volumes of appropriate quality timber.

Continuation of State based plantation, silvicultural, land acquisition and the Federal Plantation strategies are the way forward. No amount of regulation or education will assist without an expanding resource base. Now that the comprehensive and adequate reserve system has been identified in this State, core resource levels are known and provide a foundation for growth. The Commonwealth must recognise NSW' right to proceed in this fashion and complete RFAs as a matter of urgency.

This issue and any delay in its implementation will be the single biggest impediment to the continued growth and expansion of the NSW Forest Industry.

IMPACTS OF STATE GOVERNMENT POLICY

Had the NSW Government accepted the Industry preferred outcome for the Upper and Lower North East Forest Agreements, [issued under the provisions of the Forestry and National Park Estate Act (NSW) 1998] in March 1999, the direct economic impacts of the hardwood milling sector alone (excluding secondary processing) would have been:

	UNE	LNE
Output	+15.4%	+11.2%
Value-added	+15.1%	+10.9%
Incomes	+11.9%	+9.5%
Employment	+10.9%	+9.5%

In The Eden Native Forest Management Area implementation of the Joint Industry Union Model would have achieved the following levels:

	<u>Direct impact</u>	<u>Total Impact</u>
Gross Output (\$m.)	76.2	104.3
Value Added (\$m.)	34.2	50.6
Household income (\$m.)	10.7	20.0
Employment (no.)	356	721

The industry preferred options provided for growth in the industry, and thus offered considerable growth opportunities for the regional economy - including employment, especially in skilled, down stream processing activity. This growth would have been sustainable, and did not require the expenditure of large sums of public funds.

Renewable resource based industries are being assessed for their real contribution to the community. Economic, social and moral questions are being examined simultaneously with matters of conservation. The forest industry rates very highly in any analysis.

The result for the NSW native forest based industry is an emerging level of acceptability that needs to be aggressively promoted in the wider community.

POTENTIAL IMPEDIMENTS ALREADY ADDRESSED BY STRUCTURAL REFORM IN NSW:

An Ethical Industry – operating on an ecologically sustainable resource base.

An important test for our industry is one of ethical conduct. We believe that as a test for investment the level of “ethical” conduct and commitment within our industry can and should be tested. We are committed to a program of constant improvement in partnership with the Government, Unions and State Forests of NSW.

We would like to operate in a climate where the Conservation Movement can accept the case for a native forest based industry operating under ecologically sustainable principles, with medium to long term significant plantation establishment underpinning future growth.

The NSW Timber Industry is moving from a base requiring the logging of old growth forests to one of using an ecologically & sustainably managed resource consisting of regrowth forest, old growth forests not required for conservation purposes and native plantations. While most of the managed regrowth forest is currently on public lands, a rapid expansion is taking place in the development of hardwood plantations.

Many private property owners are now looking at active management of future regrowth forest, complemented by the rapid expansion that is taking place.

A Beneficial Industry – contributing to greenhouse gas reductions

Global warming, habitat destruction, and air pollution are perceived as worldwide problems. The important role of vigorously growing and regenerating timber (as, for example, in newly established plantations and carefully managed native forests) in mitigating against many of these environmental problems is now recognised. Increasing the numbers of growing trees will assist in the changes that will reduce greenhouse gases and control pollution. In making a contribution to sustainable development and environmental improvement, an investment in timber must be considered totally beneficial. The NSW Timber Industry meets these tests.

There are a number of aspects to the way that growing trees will assist in sustainable development and environmental management:

Sustainable forest management

Defining the areas of public forests available for timber production, with varying levels of sustainable and appropriate silvicultural management, will address the demands on regrowth native forest, whilst ensuring that areas of high conservation values are adequately reserved or otherwise managed.

Greenhouse gas reduction

Young growing trees absorb carbon dioxide (CO₂), consumed during photosynthesis. A growing forest (as in a plantation or regrowth native forest) is thus taking up (“sequestering”) carbon from the atmosphere. Reduced levels of CO₂ will therefore reduce the total levels of greenhouse gases being added to the world’s atmosphere.

Resource conservation

Fossil fuels such as coal are finite. If alternative sources of energy can be made available at an economic price, the demands placed on these finite resources will be reduced, thus extending the anticipated "life" of the resource. The existence of a market for bio-energy would provide an important outlet for the non-sawlog resource provided by plantation thinnings and other native forest resource (produced as a result of careful management of the resource), and from logging and sawmill residues.

REMOVAL OF IMPEDIMENTS FOR AN EFFICIENT, VIABLE, INTERNATIONALLY COMPETITIVE AND SUSTAINABLE NSW HARDWOOD INDUSTRY

It is the Industry itself that must act (through its representative Association) and as individual Companies and or employees to address impediments. The constant reliance upon Governments to solve our problems has retarded initiative and stifled growth. Rather than wait for solutions we must work to identify and address the problems now.

The future success of the NSW timber industry is dependent on markets, production, and available resource and industry strategies. The industry has the opportunity to position itself, within the constraints of its resource, to target specialised market niches and to develop an efficient and profitable strategy for the future.

These initiatives cannot get underway until and unless outstanding forest policy issues are resolved. The challenge for the Federal Government is to recognise both the constitutional right and the mandate claimed by the NSW Government that has led to the current structure of the Industry in NSW.

Implementing Regional Forest Agreement outcomes in accordance with the National Forest Policy Statement, the Joint State and Federal Scoping Agreement, JANIS and the legislative requirements of the NSW Government is feasible. This would remove a significant industry impediment.

All that is required is that the NSW Government, Industry (its Association) Employees (and Union) be permitted to identify the basis for the current arrangements, compliance with Commonwealth

requirements and the delivery of results, for Regional Forest Agreements to be put in place.

The posturing on all sides of the debate must end. The NSW FPA, with a mandate from its own members reflected in a \$100 Million investment program announced since November 1998, seeks such an outcome.

Resolution of future resource and confirmation of the industry sustainability will also permit action in the following areas:

- *Public Perception*

A communication strategy targeting all participants, the community, consumers, government and the environmental movement needs to be developed. The objective would be to improve the industry's image in the eyes of the community and consumers and to establish a credible profile of the industry's social and economic value.

To be able to demonstrate a responsible attitude to forest management, and the social and economic benefit of the industry, is essential to the development of a sound basis for industry relations with government. For consumers, industry must be identified as an efficient and reliable supplier.

- *Investment in Technology*

Research and development of new processes, products, applications and efficiencies are crucial to maintaining competitiveness within the industry and from other products. Utilisation of bi-products or residues is an issue that may contribute to such development.

RESTRUCTURING ASSISTANCE

The establishment of the F.I.S.A.P. and its subsequent endorsement by the Federal Government has provided NSW with a significant and never to be repeated opportunity, to put into place major structural changes to the native timber industry. The Commonwealth decision to suspend its involvement in the program from 19 November 1998 constitutes an ongoing impediment to the restructure of the Industry. The decision must be reversed. (The FPA has accepted all of the requirements identified by the Commonwealth for achievement of its

reengagement. It is for the Commonwealth to now negotiate such an outcome with the NSW Government.)

RESOURCE SECURITY PRESCRIPTIONS

FPA seeks removal of impediments that would hinder or prevent:

- Contractual resource security to ensure adequate supplies of sawlogs, veneer, poles, piles, girders, small, non quota resource and pulp logs.
- Maintenance of commercially acceptable and compensatable long term wood supply contracts between the NSW Government, State Forests and Industry Companies for a 20 year term, with an option for a further term.
- A review of Forest Agreements, management prescriptions and protocols, to ensure that the minimum levels of sawlog and pulp wood are available annually from those State Forests designated in the Forest Agreements for timber production in accordance with an agreed mix of species, quality and log size.
- Agreement that any future adjustment to supply levels are predicated upon the minimum saw log and pulp wood volumes determined as a consequence of the October and November 1998 Cabinet Decisions being maintained as the minimum contract levels for the next twenty years.
- Agreement to ensure long term (100 years) sustainable supply levels at a minimum of current allocations are put in place.
- Agreement that any review of sustainable saw log supply levels from public land to reflect changes in the forest inventory and new intensive forest management initiatives will be conducted on a five yearly basis, subject to the honouring of supply contracts already issued as a consequence of Government decisions
- Recognition that the state forests of NSW should all have similar forest management regimes, especially in respect of riparian zones, using for example the standards currently reflected and agreed between the Commonwealth and the State of Victoria.
- Restoration of the efficient management and harvesting of forests under government control by re-establishing the management

prerogative of State Forests of NSW by ensuring that single Agency management, within an agreed policy/audit framework is delivered.

- For forests outside SFNSW direct control, such as those on private land, that undertakings to use Governments best endeavours to ensure that harvesting activities undertaken in accordance with codes of practice generally accepted as appropriate for ecologically sustainable forest management, are not unreasonably restricted.

**ISSUES PROPOSED TO BE PURSUED DURING THE PERIOD
MARCH 1999 TO FEBRUARY 2003, AND WHICH SHOULD
ASSIST IN ELIMINATING INDUSTRY IMPEDIMENTS INCLUDE:**

- Implementation of Forest Agreements and Integrated Forestry Approvals under the Forests and National Estate Act, 1998 for the Southern Region and the Cypress and Redgum Sectors;
- Implementation of the NSW Cabinet Decisions of October and November 1998;
- Signing of the Eden, UNE and LNE RFAs as a consequence of the decisions of 1998.
- Introduction of acceptable Integrated Operational Approvals for Regions under the new Act. (With particular attention to protocols and economic supply.)
- Agreement on methodology for introduction of the agreed log haul subsidy - UNE/LNE and its extension to the Southern RFA, if required.
- Review of the SFNSW hardwood log value pricing system. (Including the long promised IPART inquiry) and in accordance with the sensible application of National Competition Policy.

- Introduction of new pricing practices for Cypress & Redgum
[In principle agreement reached - interim price adjustment
Redgum and Cypress in place November, 1998.]
- Implementation of the NSW Native Timber Promotion and
Development Council and integration of its work with the National
Timber Development Council.
- Expansion of the FISAP - Industry Development Program, with
confirmation of the transfer of the \$10 million pledged in the
November 1998 Cabinet Decision and additional funding of a
minimum of \$20 million for the period 2000- 2003.
- Implementation of the NSW Land Acquisition Program and
expansion of the plantation program. (Resource to be increased
with limited supply substitution by land acquisition where agreed).
- Finalisation of the 1999 Order of Working and an acceptable
methodology for future planning procedures.
- Review of the efficacy of the operations and or changes achieved
to the Timber Plantations (Harvest Guarantee) Act and the Native
Vegetation Management Act.
- Conduct of the review of Log Merchandising
- Finalisation of proposed pulpwood tenders in northern NSW -
with rights of existing sawmillers/contractors protected.
- Introduction of TIMID (Timber Industry Market Intelligence
Database)
- Certification of NSW forest products and environmental practices
on Crown and State Forest Lands
- Completion of the Cypress Industry Strategic Plan
- A review of exorbitant workers' compensation premiums for
sawmilling.

- Review and implementation of product quality assurance programs and product certification based on increasing members' profits and customer satisfaction, through better production techniques.
- Introduction of a community education program as a joint initiative of government, the FPA and the union.
- A continued expansion of accredited Industry Training Programs, employee certification and management skills development

CONCLUSION

The FPA proposes that we achieve a comprehensive, adequate and representative reserve system and an efficient, viable and internationally competitive native timber industry by the removal of the impediments identified herein.

Colin Dorber
Executive Director.

A CASE STUDY OF THE BENEFITS OF THE REMOVAL OF COMMONWEALTH IMPEDIMENTS:

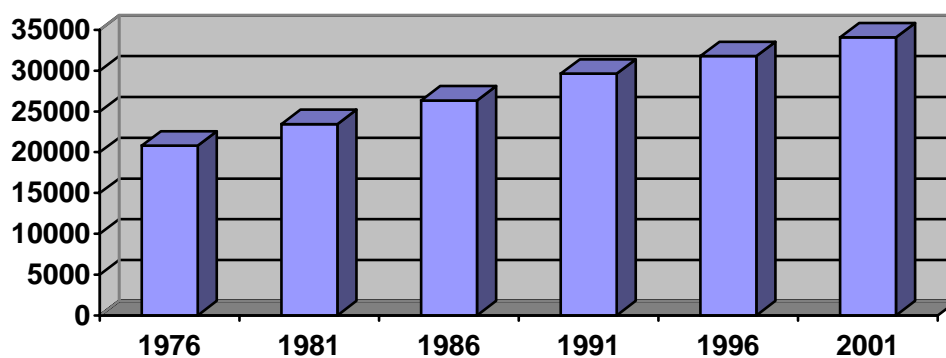
A) *The Eden Regional Economy*

A regional economic analysis, prepared during the investigations and study phase of the Eden RFA process (CARE, 1998), provides a detailed examination of the structure of the regional economy of the Eden area. The data on which this report was based include the 1991 census results (ABS, 1991) and data up to March on the labour force of the area (DEETYA, 1997). These data have been accepted as valid for the purposes of this paper, as providing a summary of the nature of the regional economy, although some more recent labour force data has been compiled which take the series to December 1997.

The "Eden Region" is taken as being that area covered by the two local Government areas of Bombala and Bega Valley Shires. The population of this region grew at an average rate of around 3% per annum over the 1976 to 1991 period, which was faster than the NSW State average, but has since declined to a rate of less than 2% per annum between 1991 and 1996. These trends are indicated in the following Figure 1.1.

Figure 1.1

Population trends : Eden



Source: ABS, various Census

Forecasts prepared by the Department of Urban Affairs and Planning (prior to the 1996 census) were for a medium level population projection for the Eden region of 32,500 by 1996, and 35,200 by 2001. The downturn in population growth rates observed between 1991 and 1996 means that the Eden region population did not achieve these forecasts.

The actual level achieved for 1996 suggests that a rate closer to the DUAP low level projection can now be expected, indicating that the region could have a population of just over 34,000 by 2001.

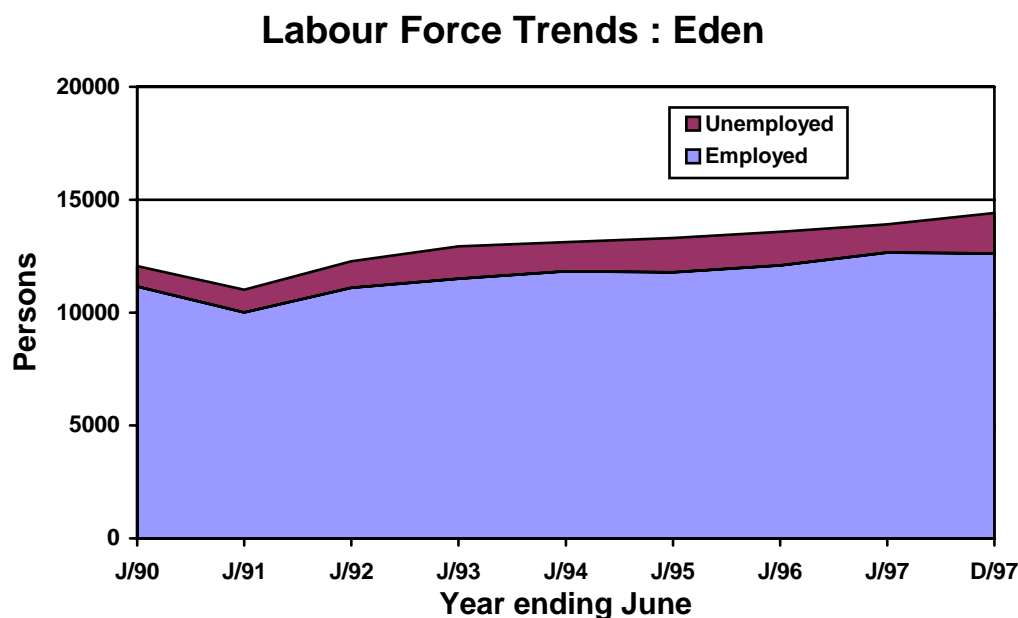
A growing population requires growth in the number of employment opportunities if unemployment is not to increase - assuming that the labour force remains a constant proportion of the population. If employment opportunities decline, then not only will the rate of unemployment increase (short-term) but actual population decreases will occur (long term). With declining population levels, there is no reason for Governments (and private operators) to maintain the level of services provided to the community.

Any loss of jobs will therefore place increased pressure on the adequacy of all community services and social infrastructure available to the Eden region, including health and education as well as personal services and welfare support. Without continual expansion in employment opportunities, the entire population of a region risks a reduction in service levels (at best) and the loss of some elements. The recent closure of bank branches in several rural communities is an example of the service losses that can occur if local populations reach static or declining levels.

A loss of employment opportunities within a region will certainly put population growth at risk. The Eden region is already experiencing a slow-down in previous rates of population growth.

As indicated in Figure 1.2 below, the labour force of the Eden region (the total of the Shires of Bombala and Bega Valley) has shown a steady growth since 1992. Over this period, while the total number of jobs (i.e. those employed) has increased, so too has the number of unemployed persons.

Figure 1.2



Source: DEETYA, 1998

Between June 1990 and December 1997, the number of jobs (as indicated by employed persons) increased by 1,460, or 13.1%. Over the same period, however, the number of unemployed persons increased by 895, or over 99%. The Eden region is therefore losing jobs faster than they are being created. As a result, the unemployment rate has increased from a level of 7.46% in June 1990 to nearly 12.5% by December 1997.

As reported in the CARE analysis of the Eden regional economy (CARE, 1998), "the gap between the supply and demand of labour has been widening by an average of 23 jobs/people per year". In other words, the labour force has been growing at a faster rate (as a function of population growth) than has employment, or job opportunities. This means that even if no further jobs are lost for the region, unemployment is likely to increase.

This imbalance between employment growth and population growth is confirmed by the Census results over the period 1981 to 1991. These data indicate that employment in the region has grown more slowly than population, with the relative growth rates being:

Average annual growth rate			
	Population	Employment	
1981 to 86		2.9%	2.0%
1986 to 91		3.0%	2.7%
1991 to 96		1.8%	1.2%

The primary (extractive industries) sector continues to provide a major source of employment for the local labour force. Over the last five years, the largest single decline in sectoral employment has occurred in sawmilling, which although a processing activity, is based on the extraction of sawlogs from the native forests of the region. The Eden regional economy remains vulnerable to any changes in access to the resources on which this processing activity is based.

The economy of the Eden region is therefore characterised by declining rates of population growth and falling employment levels, together with a continued dependence on the extraction and processing of agricultural and forest resources. This combination of factors makes the community vulnerable to any further erosion of employment opportunities and sources of economic activity.

The retention of all jobs currently available, as well as the creation of as many new jobs as possible in non-traditional areas such as eco-tourism, must be considered a matter of high priority for the regional community.

With the introduction of a NSW Forest Agreement, Term Contracts and statutory operating approvals in the Eden Region, the addition of a Joint Commonwealth State Regional Forest Agreement, will deliver:

- Establishment of a high technology sawmilling complex and value added drying and dressing facility based primarily on native forest resources from the Eden Native Forest Management Area of NSW.
- Establishment of a recovery log sawmill in the ENFMA. This recovery log sawmill will utilise and recover sawn timber from other suitable resource

currently designated and processed into woodchips. Harris Daishowa (Australia) has assigned a minimum volume of 15,000 m³ of pulp logs for the Mill. This second stage development would require the established infrastructure associated with the sawmill/value-adding complex to support its financial viability.

- Tablelands Pty Ltd will also establish a specialist “niche” furniture-processing facility at Eden. This will nurture and encourage existing and new furniture makers on the NSW South Coast, by ensuring access to appropriate materials at a fair commercial price, and would also enhance the region’s tourist potential. In that respect, Tablelands is committed to working in conjunction with, and expanding its commercial relationship with North Eden Hardwoods Pty Ltd.
- Harris Daishowa (Aust) Pty Ltd will maintain a viable wood chip export operation.
- The establishment of additional native hardwood plantations.
- Expansion of job opportunities and multi skilling of the work force underpinned by the introduction of “value added” technology and business practices;
- The creation of special traineeships and other employment opportunities.
- Investments of up to \$30 million in capital equipment, site works and other developments in the construction and commissioning of the projects in Eden (including initiatives proposed by logging contractors operating in the region)
- Permanent employment based on multi-skilling, including offers of engagement in forestry and transport operations supplying the mill and recovery mill complexes.