BigRiver

April 4th 2011

The Secretary
Inquiry into Australian forestry Industry
House of Representatives, Parliament House, ACT 2600.

Dear Sir/Madame

I will focus my comments in this submission on the processing sector given our company has no direct involvement in plantations, forest management, agriculture or other land use sectors.

**Company Summary**

I write as the CEO of the Big River Group, a family owned private business who has operated in the timber industry in NSW for over 110 years. The business employs some 400 staff nationally, and is a former winner of the 4th generation Family Business of the Year Award.

Big River has company owned and operated distribution businesses is most Australian States including branches in Townsville, The Sunshine Coast, Brisbane, Grafton, Sydney, Illawarra, Wagga, Melbourne, Adelaide and Perth, as well as warehousing in the Middle East where Big River has a long history of supplying premium construction timbers to major commercial projects.

Big River owns 2 plywood manufacturing facilities in NSW, where we hold long term wood supply agreements with the NSW Government and a private forestry operator, processing both hardwood and softwood resource. These plants employ some 240 staff in total, making our company amongst the largest employers in the Grafton and Wagga regions.

**Opportunities and Constraints on Production**

The uncertainty around wood supply in general has been a considerably inhibiting factor to our Group. The Board has determined that significant risk exists in the area of supply reliability hence much of the Group expansion has come from our general building supply distribution businesses, rather than our manufacturing assets. Specifically, the contraction of the NSW north coast hardwood log supply and indeed inadequate pine plantations in the same region, have driven this Board view.

- This is a shame given manufacturing generally employs more than triple the number of employees than do our distribution businesses, based on the same revenue dollars.
- Our Distribution businesses involve buying and selling a whole range of building products including timber, many of which are imported timber products. Australia is clearly missing the value adding opportunity to supply its own finished timber products.
- Our company was also recently involved in an anti-dumping case against plywood imports from Malaysia, Chile, Brazil and China. As a plywood manufacturer, our industry was of the view that dumping was and still is indeed occurring, and we were ultimately very disappointed in the conclusion (and investigation

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process) from Customs and Border Protection. This issue continues to be a constraint on local manufacturing.

- Manufacturing in general in Australia is suffering considerably from what is simply a un-even playing field:
  - Energy costs are increasing at alarming speed.
  - Employment on-costs remain very high (specifically around the cost of payroll tax, workers compensation insurance and other employment costs).
  - The high Australian dollar is making manufacturing very difficult in Australia.
  - High costs of environmental compliance will be worsened considerably if a carbon tax is implemented.

## Opportunities for Value Adding

I believe this is an area where Big River does extremely well. The plywood and specialty hardwood flooring products which Big River produce employ more staff per cubic metre processed than nearly any other timber product. Yet much of Australia's log resources are either processed into wood chip or put into lower value products.

- Specialty hardwood products are a potential area of competitive advantage for Australia, as the native forests are sustainably harvested and produce a sought after high quality product, superior in many attributes to Asian or European species. But high production costs and lack of wood security make this a difficult prospect.
- Having a considerable forest resource (unlike China which imports large amounts of logs) gives Australia the chance to compete in engineered wood products like Plywood, LVL, OSB, particle board, MDF. This value adding, which comes with the extra benefit of requiring additional raw materials (and hence suppliers thereof) like resin, can give even higher economic benefits to a region.

## Creating a better business environment

Investment models in Australia are affected by a range of issues, but an issue that is not insignificant is the high relative compliance costs associated with a project. A recent project we undertook at our Wagga factory for example, saw some 20% of the total cost of the project being in non value add cost items like:

- AQIS inspection costs, that were beyond extreme in our view
- Council application, DA costs and lost time in the approval process
- Electricity company requirements for upgraded infrastructure
- Roading improvements and other aesthetic site improvements
- Retrospective upgrading to the existing factory for new rules on fire-fighting requirements
- Water and civil site upgrades to meet idealistic conditions.

While these issues are 'nice to haves' they fundamentally challenge the economics of major projects. It is no wonder that some large scale manufacturing is moving off shore. I believe more assistance needs to be provided to regional projects like this that sustain or create employment, and a partnership approach be adopted to ensure infrastructure and compliance costs do not render manufacturing developments as unviable.

**Social & economic benefits of Forestry**

Personally I believe this is very poorly understood in society. The voice of the Greens in general, and their fundamental dislike for economic prosperity, and more specifically the timber industry, is a considerable force that remains difficult for regionally based communities to counter. Indeed our industry spends considerable time and money trying to do this, but my own view is that forestry and the timber industry has been demonized to the point that the counter argument is a very difficult one.

Many others will no doubt submit to this Committee the benefits of timber as the only carbon positive industry in Australia. I will not attempt to do this, as others with the full science are better placed to make this point.

- The only point I would make is that keeping economic prosperity in regional areas, and ensuring as much diversity in these regions as possible, is a challenge that is at the heart of Government. And the timber industry offers the opportunity to help achieve this, if the social and economic benefits are well communicated by all. The industry itself shouldn't be the only party trying to communicate this positive, that is for the benefit of the nation.

**Energy production**

Big River is one of only a couple of timber businesses nationally that has a co-generation electricity plant on site. It is officially registered with of office of renewable energy and generates renewable energy certificates (REC's).

- Big River has shown leadership in this technology in my view, and we have always been open about showing others the plant and how it works. I believe we value add the logs to the ultimate extreme, including the full conversion of mill waste to electricity.
- Big River uses only residues generated on site from the manufacturing process hence no forest residue are used. Yet I am aware this issue has hindered many other co generation projects, as their projects are only viable when forest waste is chipped and used as a fuel for the process. Why a distinction in the 'greenness' of these two sources has been made is beyond me.
- Big River still sees the prejudice in the market when we attempt to market our REC's. There are several organisations, (including the, until recently, NSW State Government owned electricity providers), that have a policy not to purchase wood based REC's. This completely flies in the face of the formal accreditation our company has received from the independent Office of Renewable Energy. Someone has made this totally subjective decision on ideological grounds, to the detriment of our company and indeed the industry as a whole.


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I believe more wood based renewable energy projects can be justified in the market, but some of these issues need to be looked at. The beauty of the technology is that plants don't need to be of a large scale like many power plants do, hence a project like ours is replicable in many parts of Australian, where wood based industries exist.

**Land use competition**

Again others will submit more detailed commentary on this issue however I would make a couple of points:

- A diverse economy is always better than one less diverse, so a blend of agriculture and forestry is always valuable.
- Timber processing can employ considerable numbers of staff, on a per hectare or per megalitre of water basis (whatever is your measure). Our Grafton site for example, uses a similar amount of water annually to a small commercial farm (with an irrigation license), yet we employ 160 staff compared to maybe 5 or less in the farming enterprise. The employment and multiplication factor of timber needs to be fully recognised.

**Conclusion**

I have intentionally focused on the company specifics of Big River Group in this submission, rather than the broader industry issues. We are members of several industry bodies that I am aware will be making more detailed and technically based submissions. I hope that the specific examples of our company can highlight both the positives and negatives of what currently is faced by businesses in the industry. I believe we are a leader in the timber industry in many respects, with over a 110 year family history in it. But Big River is changing course somewhat, given some of the fundamental challenges faced by manufacturers in general, and more specifically the timber industry, particularly the hardwood industry.

Whilst growth of our distribution businesses always makes sense, and comes with minimal risk, I would be disappointed if the strength of our manufacturing business wasn't also maintained. I'm sure a clear Government strategy for forest policy, timber processing and value adding targets and goals, and a well enforced trade policy will still see Australian timber manufacturing a viable force in the future. Australia has a potential competitive advantage in land and timber growing resources and we should utilize this to be benefit of the nation.

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Regards

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(Managing Director)
Big River Group

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