

The Hon Bruce Baird MP
Chair - House of Representatives Standing Committee on Economics, Finance and
Public Administration
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Dear Bruce

This submission, to the House of Representatives Economics, Finance and Public Administration Committee Inquiry into Australia's Manufacturing Sector, is made on behalf of the plantation products and paper industry.

The plantation products and paper industry consists of three distinct sectors – plantation growing, sawn timber production and pulp & paper. A3P's members employ more than 13 000 people, mainly in rural and regional areas. They create and sell more than \$5 billion of product each year.

The priority issues identified in this submission include:

- Skills shortages – many of which are exacerbated during boom times in the resources industry.
- Transport infrastructure – including the need for greater funding of regional and local roads.
- Energy supply and climate change policy – low energy costs are an important competitive advantage for the Australian pulp & paper sector.
- Streamlined regulation – particularly alignment of similar policies and programs at Commonwealth, State and Local Government levels to reduce duplication.
- Research & development – structures to address market failure and long term nature of plantation related research.
- Resource expansion – to underpin current and future investment in processing capacity.
- Government purchasing policies – that acknowledge the benefits of plantation development and recycling in Australia (rather than overseas).

- Free trade – the need for a robust anti-dumping regime and consideration of differing regulatory standards, subsidies from overseas governments to their local producers and accreditation/standards in negotiation of free trade agreements.



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The plantation products and paper industry is a value chain extending from the growing of logs and fibre, through to the manufacture of products such as sawntimber, office paper and hygiene products, and further processing into more complex products such as trusses and frames used in house construction. A3P member companies currently represent more than \$7 billion of capital investment with a further \$2 billion planned in the next five years.

The domestic market for the final products is relatively small and mature by international standards. Australia is an efficient and significant grower of logs and fibre and produces more fibre than is consumed domestically. However we export low value, relatively unprocessed products such as woodchips, and import higher value processed products such as office paper. As a result, Australia has an annual trade deficit of approximately \$2 billion in timber and paper products.

Investment in new manufacturing facilities requires an ability to compete in export markets and in domestic markets against imports. Modern economies of scale require such facilities to be large in comparison to domestic demand.

Existing facilities must also maintain international competitiveness requiring investment in technology upgrades and increasing capacity. A lack of investment would reduce the competitiveness of domestic facilities. Because of the sunk costs, they would continue to operate but would eventually be closed as quality or costs fail to meet world standards.

In summary, the raw fibre and logs are available, or can be efficiently grown, in Australia, but the market is at least partially overseas. New manufacturing capacity will be located in the best location to transform the fibre available in Australia into products for Asian markets (including Australia).

Most of the major players in the manufacturing sectors of the industry operate in many countries. Potential investment in existing or new facilities in Australia is competing internally against proposals for investment in other countries.

Factors such as labour costs, regulatory costs, proximity to market and scale of local markets are all crucial to investment location decisions and tend to favour offshore investment. Energy costs, political and regulatory stability and proximity to fibre are also important and tend to favour investment in Australia.

The challenge facing Australia's plantation products and paper industry is to determine where our competitive advantages may lie and pursue industry and Government actions to transform those competitive advantages into increased investment, production and employment.

This submission covers a range of issues where Government policy can have a significant impact on the competitiveness and prosperity of Australia's plantation products and paper industry.

Skills Shortages

As an industry operating in rural and regional areas, an ability to attract and retain appropriately skilled employees is an ongoing challenge. This difficulty is exacerbated during boom times in the resources industry as many of the standard skill sets are in common.

The wood and paper industry has recently undertaken an assessment of the level and type of skills shortages in the industry. This study is funded by the Department of Education, Science and Training and its recommendations are currently in draft form. The study has identified both industry specific skills and generic skills shortages and identified the root cause as a difficulty in attracting people to the industry. As a result many of the recommendations relate to promotion of the industry and improving certainty and future prosperity of the industry.

Transport Infrastructure

The plantation products and paper industry is heavily reliant on transport infrastructure. The basic fibre resource is located remotely from the final market and transport is a significant cost component prior to, and following, the manufacturing process.

The industry moves about 50 million tonnes of product per annum with transport costs, across inputs and outputs, averaging about 23% of product prices. More than 85% of freight for the industry is hauled by road, with about 12% by train and a minor amount by coastal shipping

While the final timber and paper products are transported from sawmills and paper manufacturing facilities along major transport routes also utilised by other industries, logs and fibre are transported predominantly along local and regional roads to the manufacturing facilities.

Along with generic issues of overall road funding levels, the plantation products and paper industry is also challenged by insufficient funding targeted at regional and local roads and insufficient routes approved for B-doubles and higher mass limit vehicles. The location of the plantation resource is also leading to increasing constraints and costs of road usage as it overlaps with developing tourism and local 'lifestyle' traffic.



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Energy Supply & Climate Change Policy

Energy is a significant proportion of the processing costs for the paper industry. Local paper manufacturers are subject to substantial competition in local and export markets from overseas producers. As a result there is little ability to pass on increases in input costs including energy to the consumers of the final product.

The paper industry has therefore been closely following, and providing input to, the Energy Market Reform process under the Ministerial Council on Energy and more recently under the auspices of the Council of Australian Governments.

While the reform process has delivered some important changes, it remains focused on providing appropriate investment and market settings for the energy supply industry rather than on the needs of the customers and users of energy. This focus is inappropriate given that any effective market must meet the needs of its customers. Attracting investment to the energy supply industry is inconsequential if it does not provide reliable and efficient energy to the major users whose investment and employment levels are crucial to the Australian economy.

The same concerns regarding energy costs, international competition and the inability to pass on cost increases is critical in the consideration of greenhouse policy. The imposition of a carbon cost on energy-intensive Australian manufacturing without the imposition of a similar cost in competing countries provides an incentive for production and investment to shift offshore. This would provide no environmental benefit and perhaps an environmental cost.

The imposition of any carbon cost in the Australian economy must credibly deal with issues of carbon leakage and international competitiveness.

Streamlined Regulation

Regulatory costs are significant for any manufacturing facility in Australia. These costs are particularly important when considering competition from countries with lower operational, environmental and safety standards. Market and corporate structures have matured to the extent that no substantial manufacturer would seek to avoid regulatory obligations in the areas of environment, health and safety.

However, duplicative regulatory obligations impose additional cost without providing benefit. Duplication between Federal, State and local regulatory requirements are clearly a major source of added cost burden, but there is also duplication between requirements imposed by different Departments in the same level of Government.

While there have been processes that look at streamlining regulatory and reporting requirements they inevitably strike the difficulties created by slightly



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different reporting metrics, scale of regulation and format of obligation. As a result, these streamlining processes retreat to consider “single reporting frameworks” at best.

Streamlined reporting is an improvement, but the commitment to reducing regulatory duplication is hollow unless Governments and Departments are willing to consider fundamental changes to their programs and legislation to align with similar but slightly different obligations elsewhere.

The recent attempt to streamline energy and greenhouse reporting is a good example. There are a range of programs at State and Federal level with very similar objectives – reducing energy use and greenhouse gas emissions. However, no Government or Department has been willing to look at whether the overarching objective of their program could still be achieved by aligning the regulatory requirements with that of another program. Instead, the streamlining process has only been able to recommend a combined reporting framework that reduces the reporting costs while maintaining all the existing, and overlapping, regulatory requirements.

Research & Development

Continued competitiveness requires an investment in ongoing research and development. Normal market forces may not lead to the optimal level of investment in research & development or the pursuit of appropriate priorities in the plantation products and paper industry because of:

- The number of participants in the plantation growing and sawmilling sectors and the diversity in size;
- The long term nature of the required research – a single rotation of softwood is 30-40 years and some research can only be appropriately conducted over multiple rotations;
- Difficulties in retaining intellectual property of research results to provide the return that would drive investment;
- The non-market, public nature of many of the priority research topics including water use by plantations and life cycle analysis of timber products.

As a result, the Forest and Wood Products Research and Development Corporation was established under the *Primary Industries and Energy Research and Development Act 1989*. The research undertaken by the Corporation is additional to the substantial research funding committed by individual organisations to specific needs. For example, the pulp & paper sector alone invests more than \$15 million per annum in specific targeted research. The Corporation is currently being transformed into a broader entity that will also



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undertake generic promotional activities for the industry and its products while still maintaining the level of commitment to research and development.

Government support for industry-wide research and development in the form of the necessary structures and matching funding is essential to ongoing research that meets broad industry and public interest needs.

Resource Expansion

Maintaining international competitiveness in the sawmilling and paper sectors requires operating on an increasingly large scale. Due to the high costs of transporting the raw material (logs and fibre), scales of operation are usually limited by the availability of plantation material within an economic haulage distance.

The need to underpin investment in further processing through expanding the resource base was jointly acknowledged by Governments and industry when establishing the “Plantations 2020 Vision” nearly ten years ago.

The resource expansion that has resulted has seen significant investment in expanding existing facilities such as the \$110 million investment by Hyne Timber in their sawmill at Tumberumba (now the biggest in the southern hemisphere) and in new facilities such as Visy’s pulp and paper mill at Tumut. There is significant potential for further expansion as the plantations already established mature – proposals such as Gunns’ pulpmill in Tasmania are based on recent plantation expansion.

However the expansion in the resource base must be allowed to continue to maintain the momentum of investment in processing facilities and bring some regions to a critical mass of resource that can sustain a viable industry.

Government’s continued commitment to the 2020 Vision and decisions on matters such as the current review of plantation tax arrangements are critical in supporting continued plantation expansion.

Government Purchasing Policies

Governments are significant purchasers from the plantation products and paper industry – particularly of paper. Combined with their role in leading responsible organisational behaviour, Government purchasing is an important tool in encouraging fundamental changes in manufacturing.

For example, an acknowledgement of the many benefits to Australia of growing fibre locally and recycling material that would otherwise be part of Australia’s waste stream would be consistent with Government policy in other areas. Current policies that may favour plantation material do not differentiate between plantations grown overseas, often with lower environmental standards



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and with any benefits accruing elsewhere, and plantations grown locally to approved environmental standards and addressing Australia's ecological issues.

Similarly, there is no differentiation between recycled paper from overseas that has reduced another country's waste disposal challenge and recycled paper produced locally that reduces our own waste disposal costs and environmental impact.

If we are to capture the many natural resource management benefits of increased plantations and reduced waste benefits of recycling, it is appropriate for Government purchasing policy to acknowledge these benefits.

Free Trade

The Australian plantation products and paper industry competes against overseas producers, increasingly those based in the Asia-Pacific region. Issues of trade and competition are linked to anti-dumping, differing regulatory standards, subsidies from overseas governments to their local producers and accreditation/standards.

Wood and paper products are internationally traded commodities and Australian wood and paper products manufacturers face significant competition from low cost producers around the globe. Globalisation is increasing this competition. Rapid expansion in paper manufacturing capacity particularly in Asia in recent years has substantially increased competitive pressures on Australian manufacturers and increased concerns about the potential for dumping of product in the Australian market. Australian paper manufacturers have been involved in anti-dumping actions for some years and see the availability of a strong anti-dumping and countervailing measures regime and maintenance of safeguard provisions as vital to the future of the Australian industry.

Differing regulatory standards, subsidies to overseas producers and acceptance of Australian exports under local standards are all matters that should be considered in negotiating free trade agreements, particularly with Asian countries.

Many of the matters raised in this submission have been the subject of submissions from A3P to other Government processes including the energy market reform program, the review of plantation tax treatment and the review of Australia's anti-dumping regime. Other topics are the subject of joint Government-industry initiatives including skills shortages and research & development. Copies of these submissions and initiatives can be supplied to the Committee if requested. Many are also available on A3P's website:

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In addition to the issues outlined above, a range of long term issues have been identified in A3P's Sustainability Action Plan – *performance, people and prosperity*. These include forest certification, water use in processing, air emissions and waste, and safety.

I would be happy to respond to any questions raised by this submission or expand further on any of the issues raised. I thank the Committee for their interest in the important topic of the future of Australia's manufacturing industry.

Yours sincerely



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CHIEF EXECUTIVE OFFICER



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