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**ACT GOVERNMENT SUBMISSION
TO THE INQUIRY INTO**

**INCREASING VALUE-ADDING TO AUSTRALIA'S RAW MATERIALS
BY
THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
INDUSTRY, SCIENCE AND RESOURCES**

1. Background

As an overriding comment, ACT Government policy is to encourage investment across all industry sectors in the ACT for the purposes of greater economic diversification and the creation of widespread employment opportunities.

In relation to raw materials, the legislative framework is in place to ensure such development occurs in an environmentally sustainable manner.

The framework includes the following legislation:
• Land (Planning and Environment) Act 1991
• Environment Protection Act 1997
• The Territory Plan 1998

2. Definition

For the purpose of the submission, the term 'raw materials' is defined as:
• forest and forest products; and
• coal, oil, gas and minerals which are extracted from the ground.

The forest and forest products and furniture manufacturing industries are the major value adding processes to raw materials which are conducted in the ACT.

The ACT does not have a significant extraction industry and no specific comments are included in relation to these activities.

3. Value Adding Activities to Timber

Nationally, the main elements of value adding activity consist of.
- sawmilling;
- reconstituted wood products such as plywood, particleboard and hardboard;
- pulp and paper manufacture;
- woodchips for export;
- production of poles, posts and sleepers; and
- manufacture consisting of joinery, furniture and wood based products.

Total use of wood resources is a key factor in improving profitability within the wood and wood products industry. As a result, the modern industry encourages the use of residuals in the production of the following products:
- woodchip;
- pulp;
- particleboard; and hardboard.

Given the intense use of the resource and the capital intensive nature of the industry, trends within the national industry are towards: integration; rationalisation; and recapitalisation

4. Overview of ACT Industry

ACT Forests generates about $9 million dollars per annum in log sales. A profile of ACT Forests business activities is included at *Attachment A.*

The majority of these logs are processed locally by 3 sawmills and one timber preservation plant.

The sustainable supply of logs by ACT Forests to the ACT based sawmilling industry underwrites the jobs of 350 people and brings $70 million per annum into the ACT economy.

The processors supply timber for the following:
- structural timber for housing;
- appearance grade timber for furniture;
- timber batons for roofs to support tiles; crates, pallets and cable drums;
- vineyard posts; and
- treated logs for landscaping.

Markets for the bulk of ACT Forests' timber include Canberra, Sydney and Brisbane.

ACT Forests also plays a brokering role in the local market. By operating as an intermediary in the market, private plantation owners and operators are provided with additional opportunities to sell their logs and timber. In doing so, ACT Forests benefit from having access to a larger supply of logs which benefits local timber mills via higher throughput and more efficient use of capital resources.

In terms of the range of value adding activities conducted in the ACT, local timber mills form the initial stage of value-adding to forest products through to the manufacture of office furniture for domestic and international markets by firms such as Instant Office Furniture and Melwood Trading.

5. Incentives and Impediments to Investment

5.1 Incentives

In 1997-98, Australia was a net importer of forest and wood products according to the Forest and Wood Products Research and Development Corporation Annual Report. The report listed trade as follows:

Imports	$2.7 billion
Exports	$1.2 billion inc $500m woodchips

Such a trade imbalance, while not being a specific incentive, indicates significant opportunities to develop import replacement activities and to generate export markets for products.

The ACT Government seeks to encourage the further economic diversification in the local wood and wood products and associated manufacturing industries by encouraging business investment through the use of incentives.

The ACT Government administers the ACT Business Incentive Scheme (ACT13IS) to encourage direct investment in business in the ACT. Incentives that may be available under the Scheme include tax concessions, direct land grants and workforce development assistance. Applications are assessed on a case-by-case basis.

The ACT lies within a belt of forests and woodland throughout which are located manufacturing plants for hard board and particle board. A location in Canberra presents opportunities for downstream manufacturers which use appearance grade timber and board products for the production of high value items such as furniture.

Options exist for timber mills and downstream manufacturers to introduce value adding activities which may provide higher margins against the additional capital investment required. Examples include finger jointing and the potential development and application of veneers for furniture production.

Research and development plays a key role in the development of new and improved products. The CSIRO Forestry and Forest Products Division is headquartered in Canberra and works with the private sector to improve existing products and develop innovative solutions to problems. Research undertaken in Canberra is focused on forest and plantation growth, namely:
- native forest management;
- tree improvement and genetic resources; and
- maximisation of economic and environmental gains from tree plantations.

Research and development undertaken out of the Melbourne office is directed at value adding activities:
- pulp and paper products; and
- wood processing and products

5.2 Impediments

Major factors which impede the development of value adding activities in the ACT include:
- existing infrastructure at regional centres such as Tumut and Eden;
- the fragmented SME supply base means that investments to improve plant and equipment are relatively large;
- softwood resource is relatively small.,

- businesses seeking to improve capacity need to develop markets outside the ACT, which may include export markets. There is insufficient understanding of international markets on the part of SME management;

Infrastructure for existing operations can be improved significantly. Examples include road facilities between Tumut and Canberra and port facilities at Eden.

In the ACT, local timber and wood product manufacturing industries are fragmented and consist of small numbers of SMEs. Investment required for the establishment of timber milling operations or automated value adding activities, for example, may be relatively large for such SMEs. In addition, margins for timber mills are relatively low compared to value adding activities that may be undertaken such as the production of high value furniture.

In terms of available land, the softwood resource base in the ACT is currently at a maximum under the provisions of *The Territory Plan.* It is estimated that ACT Forests administer some 15,700 hectares within the ACT. To diversify operations and increase potential supply, ACT Forests also manage forests and plantations outside the ACT under contract. However, the relatively small quantity of forest resources in the ACT represents an impediment to the establishment of large scale value adding such as board manufacture.

Export markets exist for Australian timber and wood products but SME operators may not have sufficient understanding of international markets to take best advantage. In this regard, liaison between ACT firms, the Government and the Australian Trade Corporation (Austrade) may need to be strengthened with Austrade evaluating the adequacy of market information on, and within, industry sectors.

6. Factors Which May Encourage or Hinder Australian Value Adding

6.1 Encouraging Factors

The *Plantations for Australia: The 2020 Vision* establishes a framework for the development of the timber and processing industries which are market focussed, internationally competitive, sustainable and profitable. The document is based on four strategic imperatives:

a) Boost availability of suitable land for plantations;
b) Get the commercial incentives right;
c) Establish a commercial plantations culture; and
d) Improve information flows.

Key thrusts in the document is the identification of suitable land and conditions for new plantations and the simplification of planning regulations between jurisdictions.

6.2 Hindering Factors

The location of forest resources is usually determined by soils types and climatic factors, particularly annual rainfall. While *The 2020 Vision* seeks to encourage greater knowledge of the regional potential for tree production, the more sought after high value timbers for value adding purposes, particularly specialty hardwoods, are located outside the ACT. Consequently, transport costs may influence the development of the value-adding based on specialty hardwoods but this will not prevent future development which utilises local and regional resources.

Higher-end value added activities may also require specialist skills and an identified market. As activities become increasingly mechanised or automated via CAD-CAM, higher skills are required which are generally not within the traditional role of existing tradespersons.

7. Location of Value Adding Industries and Projects in Regional Australia

Businesses within the Canberra-Queanbeyan area which conduct some value-adding activities consist of:

- everal timber mills;
- some 25 trade and retail timber suppliers; and
- over 30 furniture design and custom builders.

All organisations are SMEs.

A number of national companies have plants established within or close to the Australian Capital Region and undertake value adding activities on a large scale basis. These include:

Medium Density Fibre (MDF) Plant - Oberon NSW, operated by CSR Particle Board and Veneer Plant - Tumut NSW, operated by CSR Veneer Plant - Wagga Wagga NSW, operated by Laminex Woodchipping - Eden NSW, Harris-Daishowa

In addition, Richard Pratt's Visy Industries announced a decision to locate a pulp and packaging manufacturing plant at Tumut, NSW.

The proposed plant will add to the existing regional capacity which includes pulp and paper manufacturing by Australian Newsprint Mills at Albury, NSW. The Visy plant will further draw on resources in south east NSW and the Gippsland region of Victoria.

8. Resource Licensing or Permit Arrangements

The Territory Plan provides security of tenure for forests and plantations. Amendments to *the Territory Plan* requires the consent of the ACT Legislative Assembly. Forests and plantations in the ACT are currently at the maximum size permitted under the current Territory Plan. Establishment of plantations are not, permitted as a land use under rural leases.

There is no need for the implementation of Regional Forest Agreements in the ACT because all native forests already fall under central administration as nature parks.

However, local timber mills are required to deal with interstate operators and therefore, are affected by Regional Forest Agreements which may be put in place in state jurisdictions, particularly NSW, as the closest major source of hardwood timber.

9. Impact of Vertical Integration Within Particular Industries

Large scale value adding activities from softwood resources focus on the manufacture of particle board, hardboard and pulp and paper.

The establishment of a plant requires multimillion dollar investment given the capital intensive nature of these activities. Favourable investment conditions are also required across a wide range of factors. These include:

• availability of infrastructure and labour force;
• resource security; and
• business and market conditions.

Nationally, ownership of large scale value adding activities is concentrated in the hands of few national companies. This is demonstrated on a regional basis in the section 'Location of Value Adding Industries and Projects in Regional Australia'.

Vertical integration in the ACT occurs, for example, where board products manufactured by national companies are also sold by the same company on a wholesale basis to tradespersons and builders. The issue which may arise in the future is one of potential market dominance, as requirements for increased efficiencies reduce the number of local wholesalers in board products, possibly resulting in higher prices.

The intermediate products manufactured by these national companies can be utilised by ACT manufacturers, and further value added through the production of furniture and other wood products.

10. Conclusion

Options also exist for businesses in the early stage of the value adding process to introduce activities which may provide higher margins against the additional capital investment required. Examples include finger joining and application of veneers for furniture production.

A location in Canberra presents cost effective opportunities for downstream manufacturers which use appearance grade timber and board products for the production of high value items such as furniture.

11. Further Information

Should you have any queries concerning the submission, please contact

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Appendix A
ACT FORESTS' BUSINESS ACTIVITIES

ACT Forests generates about $9 million dollars per annum in log sales.

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The processors supply timber for the following:
- structural timber for housing;
- appearance grade timber for furniture;
- timber batons for roofs to support tiles; crates, pallets and cable drums;
- vineyard posts; and
- treated logs for landscaping.

The timber and timber products are sold largely interstate and predominantly into the Sydney and Brisbane markets. The timber processed from ACT Forests' logs has a reputation of being of high quality.

Low quality logs are not required by local processors and will probably be exported when the markets are developed and the railhead in Canberra is constructed. Transport to Tumut is not viable for these low quality logs due to the uneconomic haulage distance.