



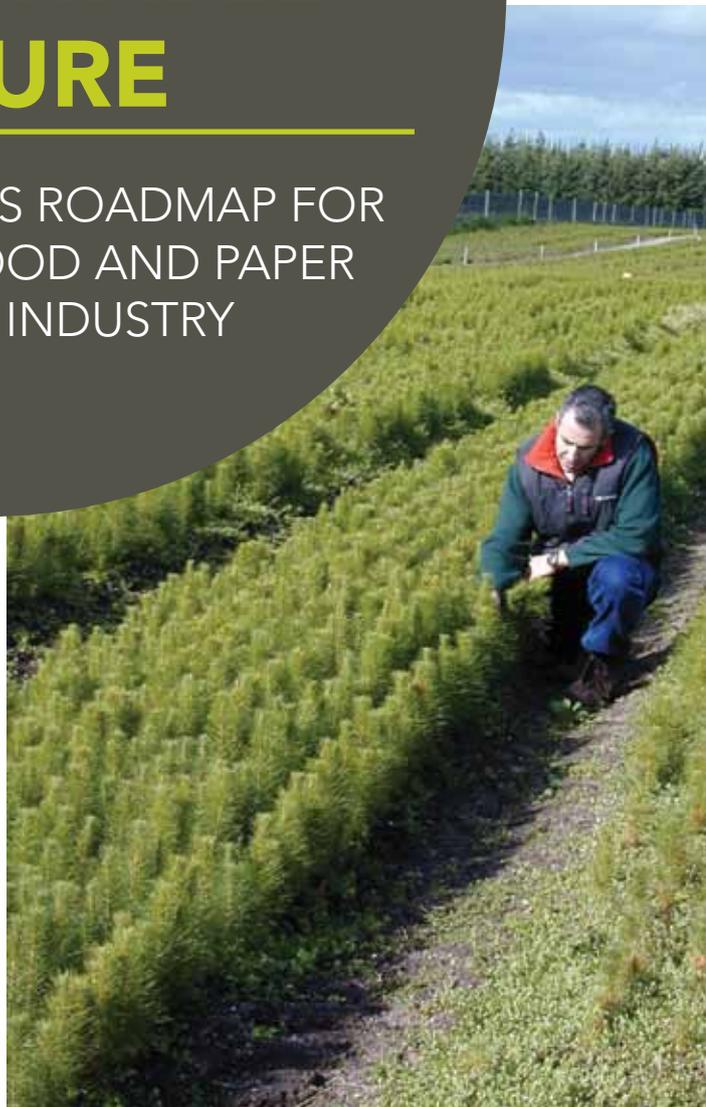
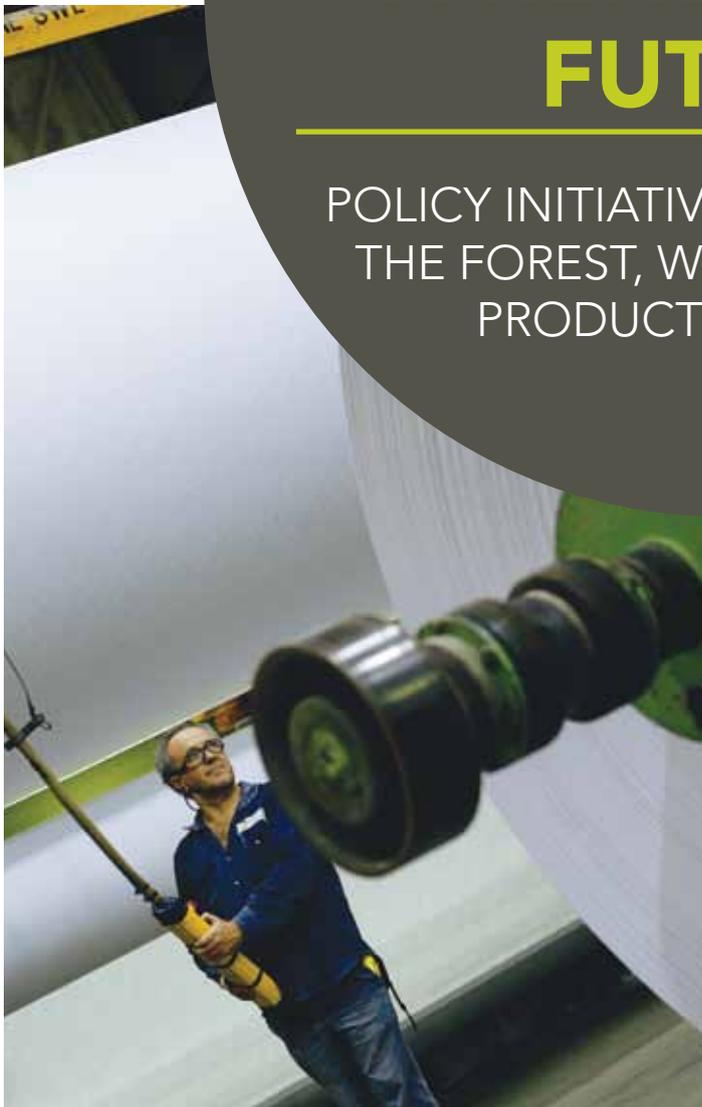
AUSTRALIAN
FOREST PRODUCTS
ASSOCIATION

afpa

trees wood paper

A RENEWABLE FUTURE

POLICY INITIATIVES ROADMAP FOR
THE FOREST, WOOD AND PAPER
PRODUCTS INDUSTRY



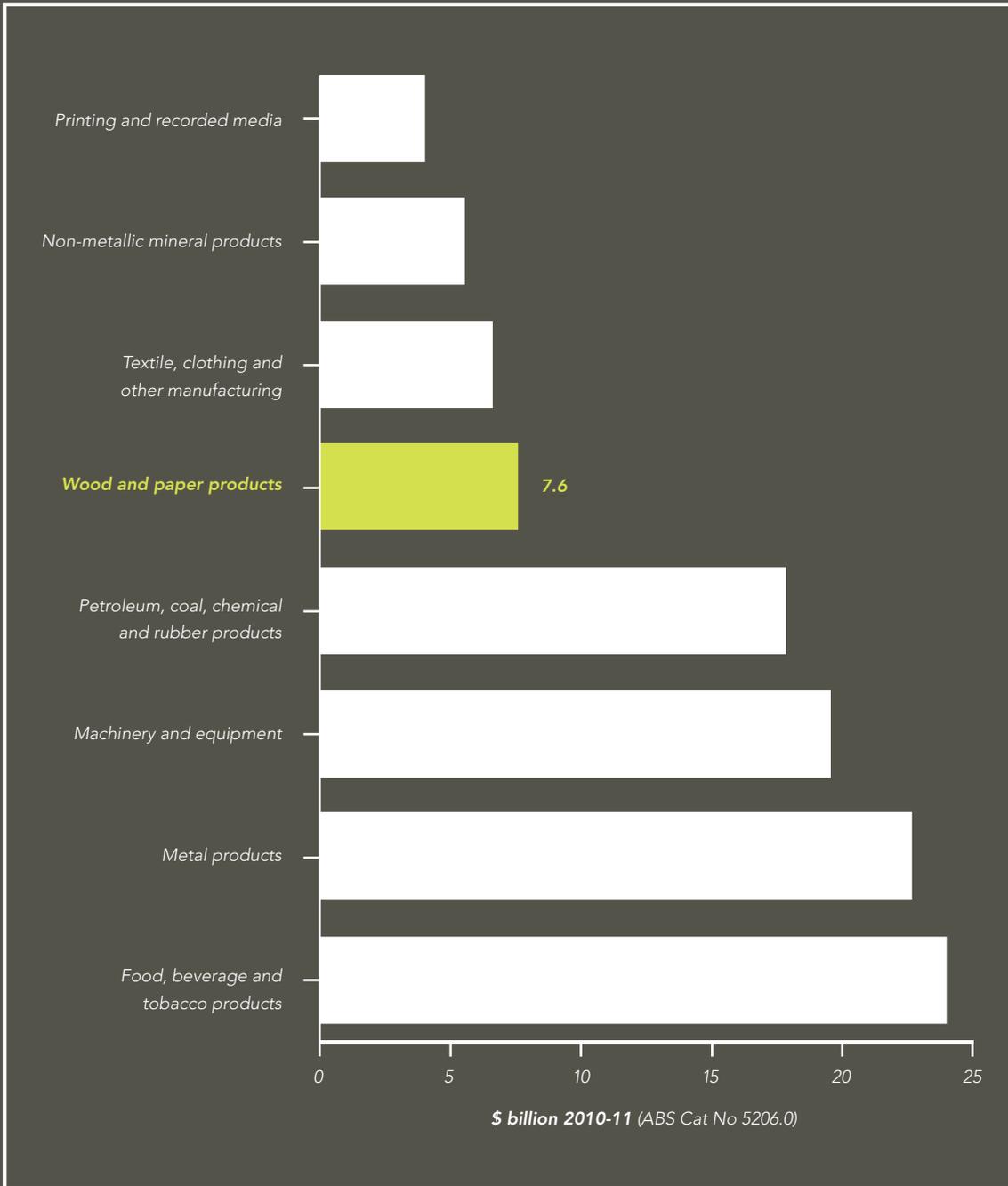


Plantation forest

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GROSS VAUE ADDED BY MANUFACTURING INDUSTRY



The wood and paper products sector of the manufacturing industry is extremely important not only because of the sector's size but its renewability and location, being mainly in regional and rural Australia.

INTRODUCTION

Australia is looking for new solutions to curb carbon emissions and to enable the transition of the economy to a renewable and sustainable future. In many ways the forest, wood and paper products industries are well placed to assist the transition of the Australian economy to this sustainable, lower emissions future.

With a growing population and higher demand for a range of building, paper and energy products to meet future needs, the sector can help satisfy this demand with a renewable resource. It can also provide significant economic development and regional jobs. The forest, wood and paper products industries presently have a gross value of turnover of \$22 billion, supporting around 120 000 direct jobs nationally.

The forest, wood and paper industries are based on a biological resource that is renewable. The environmental benefits of these industries include the low fossil fuel energy inputs when compared with alternative materials such as steel, aluminium and concrete. Other benefits include the carbon stored over time in forests and harvested products and the high propensity for recycling and reuse of wood and paper products.

However, the broader policy environment for enabling these opportunities to be realised fully is yet to be developed and in many cases is impeded by the existing regulatory environment in Australia. The sector has been facing serious competitiveness pressures exacerbated by global market conditions and relatively high capital, labour and energy costs in Australia



Timber framing for housing construction represents an important part of the manufacturing sector. 'Blue pine' (pictured) gives long lasting termite protection.



Young eucalypt plantation

THE WAY FORWARD

A truly forward looking approach is needed to reposition the forest, wood and paper products industries at the forefront of the new low carbon economy. AFPA is capable of working with Governments, our industry partners and other stakeholders to address these issues and implement this vision.

The potential benefits of getting these policies right are huge. The Pulp and Paper Industry Strategy Group (PPISG) identified the fact that full implementation of their recommendations could contribute as much as \$38.7 billion to the national economy, with a further 3500 jobs by 2020.

It is therefore critical that progressive policy settings be developed and implemented now, so as to position the forest industries within the emerging bio-economy and arrest the current trend toward declining competitiveness – which reflects to a significant extent the bad regulatory environment in the growing, processing and manufacturing parts of the industry.

Given the diversity and inter-connectedness of the forest growing and processing supply chain in Australia, policies need to be cognisant of the international competitiveness of the industry as a whole, which includes upstream and downstream flow-on effects between sectors.

KEY PRIORITIES FOR GOVERNMENT

Achieving the full potential of the forest, wood and paper products industries will require strong leadership and a partnership approach between industry, communities and governments.

AFFPA has identified eight key priorities for government to position the industry at the forefront of the low carbon economy and to deliver economic, social and environmental benefits.

1 PLAN FOR A RENEWABLE FUTURE

Recognise the environmental and economic value to the Australian community of a vibrant forest products industry and plan for expanded contribution of the industry to a low carbon economy.

2 CARBON ECONOMY AND RENEWABLE ENERGY

Deliver a better regulatory environment and a new program of direct action for the commercialisation of carbon sequestration in forests and forest products through payments for carbon storage and greater use of biomass for renewable energy.

3 BUILDING RESOURCE SECURITY

Stimulate capital investment for new softwood and hardwood plantations and support the Regional Forest Agreements to provide long term wood supply from sustainably managed forests.

4 COMPETITIVE ENERGY NETWORKS

Deliver competitive and efficient (low cost) energy networks for wood and paper manufacturing users, including affordable gas and associated gas infrastructure.

5 IMPROVING MARKET ACCESS

Deliver fast and effective anti-dumping action, support certification, address illegally sourced imports of wood and paper products and recognise the environmental advantages of wood through building codes and energy rating schemes.

6 PUBLIC COMMUNICATIONS

Promote the benefits of sustainable forest management and recognise the renewability of products derived from wood through public communications activities.

7 INVESTMENT ENVIRONMENT

Facilitate investment comparable to other countries, by reducing sovereign risk, transparent planning processes and incentives for investment.

8 INFRASTRUCTURE AND R&D

Develop better infrastructure, promote skills and resume funding of R&D in sustainable forest industries.

1

PLAN FOR A RENEWABLE FUTURE

World and domestic demand for forest products will continue to rise in line with population growth as will the search for environmentally sustainable and renewable products such as wood, pulp and fibre. The Australian forest, wood and paper products industries are at a cross-roads in terms of their immediate and long term future, and the contribution they can make to the economic, social and environmental well-being of the nation.

Australia's forest based industries provide significant economic and social benefits to the national economy including to rural and regional Australia through the growing, processing and marketing of wood products, which directly support around 120 000 jobs nationally with a gross value of turnover of around \$22 billion.

Australia's growing population is driving an increase in demand for renewable building and paper products. The forest, wood and paper industries are well placed to assist the transition of the Australian economy to a sustainable, low emissions future while providing significant economic development and regional jobs.

However, the area of forest available for wood production has declined markedly over the last two decades and there has been no significant new investment in long rotation sawlog plantations since the 1990s. Industry expansion and the transition of the Australian economy to a low emissions future is constrained by a lack of access to plentiful, renewable domestic wood supplies. Now is the time to address the need for expanded access to what is a renewable and sustainable forest resource.

This expanded access will provide a range of significant economic and environmental benefits. Land management costs to government will decrease as the forest industry is once again promoted as a sustainable land manager, managing for a full range of catchment, biodiversity, fire control and sustainable wood production values. For these benefits to be realised, action needs to be taken now before more industry capability is lost.

The long lead times for investment in plantations and production facilities also mean that planning must begin now for a sustainable and growing forest industry. Otherwise there will not be enough locally grown wood to meet future domestic needs, leading to higher imports and a worsening trade deficit in wood and paper products.

Stable policy settings and the development of markets for emerging environmental services, such as carbon sequestration from planted forests and the sustainable use of forest biomass, will be equally important in delivering long term climate mitigation benefits.

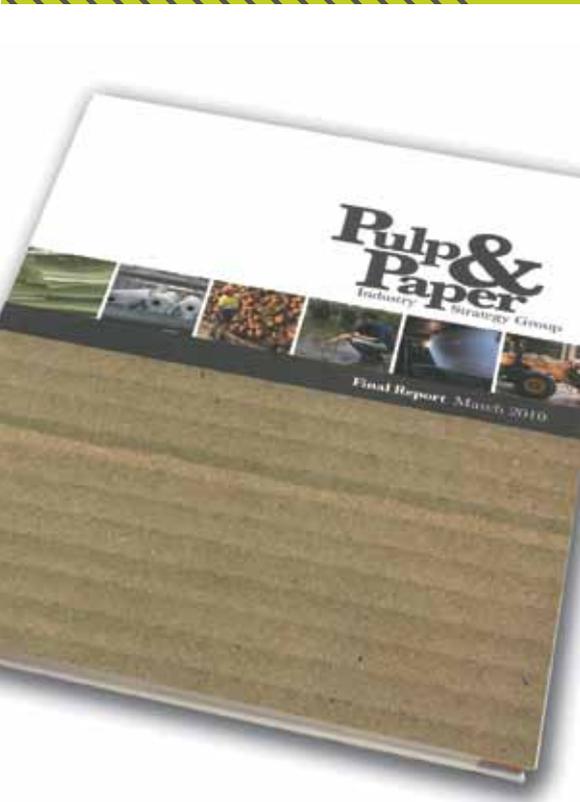
When faced with similar issues in the past, the Australian forest industry, in cooperation with government, timber communities and unions, developed a forest industry strategy to guide future policy direction for the industry. Australia's pulp and paper industry adopted this approach in establishing the Pulp and Paper Industry Strategy Group, which identified a range of regulatory reforms to remove impediments and initiatives to improve the competitiveness of the pulp and paper sector. The Group reported to government in March 2010.

A good starting point to reinvigorate and promote future industry growth is to implement key recommendations from the pulp and paper report and the recent House of Representatives enquiry, *Seeing the Forest through the Trees*, which reported to Government in November 2011. The latter report made 19 key recommendations for the forest and wood products sector but it is still waiting a government response.

It is critical that Government work with industry to prioritise and implement key recommendations from these two major reviews that address regulatory impediments as well as opportunities for future industry growth. These opportunities include both traditional industries such as renewable paper and timber products as well as emerging industries for environmental services such as tree carbon sequestration and renewable energy from biomass.

ACTION FOR GOVERNMENT

- Implement key recommendations and priorities from previous reviews into the forest, wood and paper products industry, in partnership with industry, in order to remove regulatory impediments and promote growth opportunities
- Promote the benefits of sustainable forest industries through strong national political leadership, and effective communication and awareness programs by Government agencies formally managing forests for multiple-uses that include wood production
- Restore long term resource security for the forest and plantation industries through the Regional Forest Agreements (RFAs) renewal process, and development of an evergreen 20 year resource security process backed by Commonwealth and state legislation
- Establish under the Forest and Wood Products Council an inter-departmental working group to coordinate whole-of-government responses with industry
- Re-establish the Pulp and Paper Innovation Council to progress key priorities
- Establish an effective investment mechanism for developing long rotation sawlog plantations for future wood supply and carbon emission abatement benefits
- Promote the benefits of plantations and reforestation including carbon emission abatement, restoration of degraded areas, enhanced agricultural productivity and provision of environmental services
- Coordinate and harmonise state and federal regulation to avoid duplication, and remove any conflicting policies and unnecessary costs to industry, with a particular focus on a review of the multitude of state and federal climate change policies in light of the carbon price mechanism
- Recognise the full range of climate change mitigation benefits provided by the forest industry, by including incentives for carbon sequestration and renewable green bioenergy and including carbon credits from commercial forestry in any future carbon price mechanism



Timber is a natural, renewable and recyclable product that stores carbon

2

CARBON ECONOMY AND RENEWABLE ENERGY

Australian society is looking for new solutions to curb carbon emissions and to enable the transition of the economy toward a more renewable and sustainable future. In many crucial ways the forest, wood and paper products industries are well placed to assist the transition of the Australian economy to a sustainable, lower emissions future. Australia has a growing population and an increased demand for a range of building, paper and energy products. Australia's forest industry can help satisfy demand with renewable products, while providing significant economic development and regional jobs.

The forest, wood and paper industries are based on a renewable biological resource, which can help sustain our society. Australia should capitalise on the strengths of its forest based industries as part of this renewable future. These strengths include:

- a. the renewability of a natural resource compared with other finite resources in a world of growing population and materials demand; and
- b. net carbon sequestration in forests and long term carbon storage in harvested wood products. The industry has potential for producing biomass products for renewable energy, such as electricity, heat production and biofuels, as well as other non-fibrous materials for other industrial purposes.

Forest products typically have a long service life, with the half-life of solid and composite wood products up to 100 years when used in single-family homes and 30 years when used in furniture, while paper has a half-life of up to 6 years. At the end of their service life (which can include a significant phase of recycling), most wood and paper products are deposited in landfill, where they remain undecomposed, further extending the carbon storage by wood products.

The lack of incentives for the use of forest biomass in energy generation creates a serious imbalance in the renewable energy market, and misses some of the lowest cost opportunities for carbon emissions abatement.

This industry should be at the forefront of a renewable and sustainable economy. It has a track record of innovation and value adding while managing a renewable natural resource through sustainably managed forests and recycled wood and fibre supply chains. However, the policy environment for enabling carbon based opportunities to be realised fully is either yet to be developed or is impeded by the existing regulatory environment.

The forest, wood and paper products industries can contribute to long term carbon emissions abatement through multiple pathways, including:

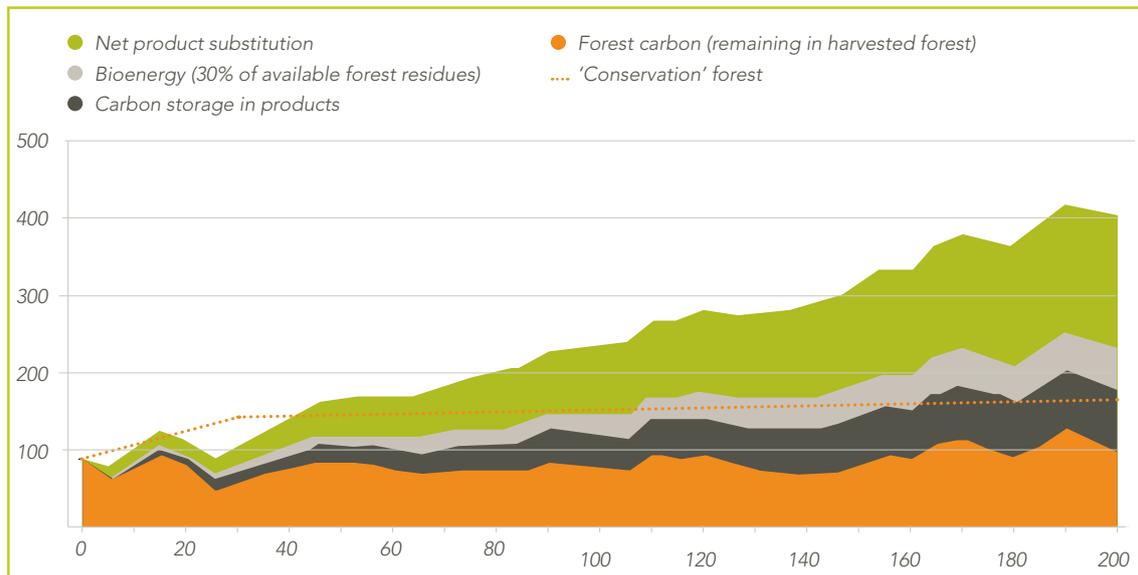
- the atmospheric carbon captured and stored in growing forests;
- the carbon stored in durable wood products and substitution of more emissions intensive building materials such as steel, aluminium and concrete;
- the use of wood waste and biomass for renewable energy (displacing fossil fuel sources such as oil and gas); and
- other clean technology applications such as cogeneration to reduce energy use and emissions from processing activities.

This abatement potential was recognised by the International Panel on Climate Change (IPCC) in their 4th Assessment Report, where they state:

In the long term, 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.

Unfortunately, the potential role of production forestry in mitigating climate change, though substantial, has been overlooked in recent Australian policy.

GREENHOUSE GAS (GHG) IMPLICATIONS OF THE “CONSERVATION” AND “PRODUCTION” SCENARIOS (TONNES OF CARBON PER HA SEQUESTERED OR DISPLACED) FOR NORTH COAST FORESTS MODELLED OVER A 200 YEAR PERIOD



Source: Ximenes et al (2012), *Forests* 2012, 3:653-683

CARBON EMISSIONS ABATEMENT

Land based schemes such as the carbon farming initiative need to recognise the full life cycle benefits from harvested wood and paper products in addition to the carbon stored in trees. A full life-cycle analysis of forest products will also take into account their relatively low embodied energy and clarify the advantages of using them to substitute for materials such as steel and concrete.

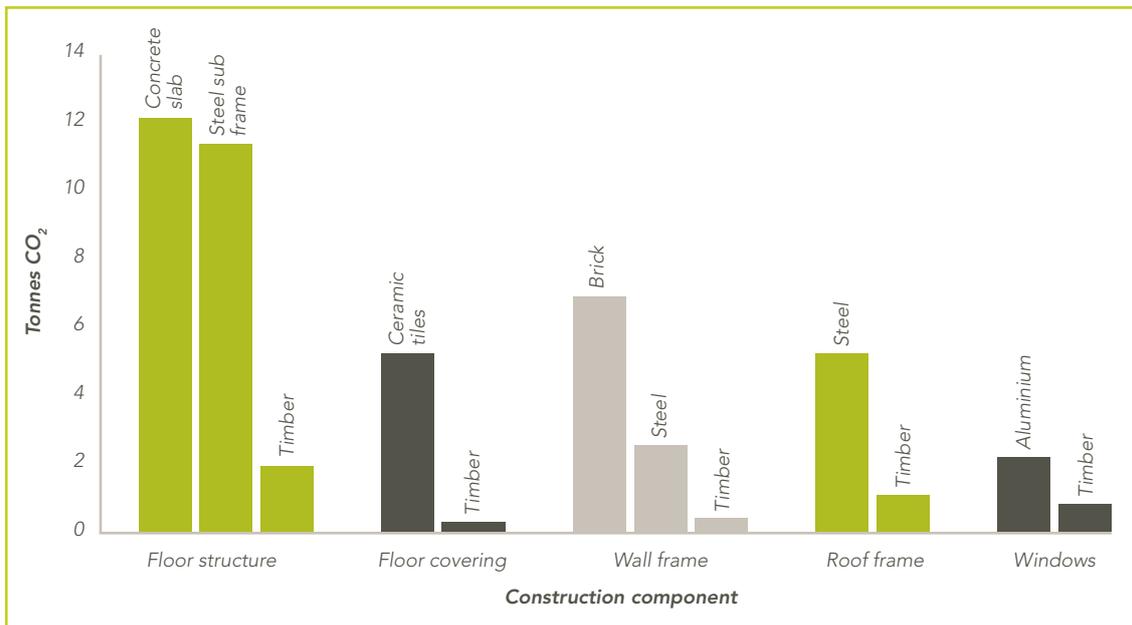


Timber pellets in preparation for producing non-fossil fuel bio-energy

ACTION FOR GOVERNMENT

- Take a holistic view of the carbon emission abatement potential of naturally regenerated forests and plantations recognising their multiple carbon sequestration and product substitution benefits
- Deliver a better regulatory environment for the commercialisation of carbon sequestration in forests and forest products and their substitution of higher emissions materials (e.g. amend the carbon Farming Initiative to recognise these benefits)
- Provide a policy framework for carbon that does not attempt to regulate other land use issues (e.g. water, biodiversity, community issues), which are more appropriately addressed elsewhere in public regulation
- Amend existing regulations to value the carbon stored in wood and paper products over their service life and beyond through landfill
- Ensure building codes and energy rating schemes do not unfairly restrict the use of wood products, and recognise their life-cycle benefits and low carbon footprint

GREENHOUSE GAS EMISSIONS IN THE MANUFACTURE OF BUILDING MATERIALS USED IN AVERAGE FAMILY HOME¹



Source: Modified from InWood International Magazine Issue 55

RENEWABLE ENERGY

Residues from Australia’s forest, wood and paper products industry hold great potential as alternatives to fossil fuels for energy generation. Forest biomass can also be utilised for renewable heat and liquid fuels, which tend to be more efficient than electricity generation. Despite having the highest area of forest per capita of the developed nations, Australia lags behind in the use of bioenergy, which represents just 0.8 per cent of energy production. The lack of incentives for the use of forest biomass in energy generation creates a serious imbalance in the renewable energy market and misses some of the lowest cost opportunities for carbon emissions abatement. The forest, wood and paper industry has the potential to provide 3000 Gwh of renewable energy per year by 2020, or around seven per cent of Australia’s renewable energy target.

ACTION FOR GOVERNMENT

- Develop renewable energy opportunities for the industry, including renewable biomass for electricity, renewable heat capture and biofuels
- Amend the Renewable Energy Target scheme to recognise these legitimate sources of renewable energy including the recognition of biomass sourced from sustainably managed naturally regenerated forests
- Enable the wood and paper products industry to access clean technology programs. This will facilitate co-investment in renewable energy, advanced heat capture and transfer technologies, and other innovative lower emissions opportunities in manufacturing
- Provide for pre-certification of forest biomass projects to provide security to investors and assurance that they are eligible for renewable energy credits prior to the commissioning of a plant

CARBON PRICE MECHANISM

The forest, wood and paper products industry has supported a price on carbon, whether a carbon tax or an emissions trading scheme, provided the design of the mechanism deals responsibly with the potential risks of introducing a price on carbon ahead of competitors, and reasonably reflects actual carbon flows throughout the economy by recognising carbon storage in growing trees and harvested wood products.

In a perfect market, a price (or cost) on carbon emissions should encourage substitution for low emissions products such as timber and other technology improvements. However, the design of such policies is difficult given the existence of 'imperfect markets', most importantly in this case through carbon leakage – that is, a decrease in domestic competitiveness and an increase in imports and emissions from overseas products without a comparable carbon cost. This is a major issue facing domestic wood and paper producers, which will be faced with higher energy and input costs while competing on international markets. It is therefore essential that such carbon price policies provide appropriate transitional assistance for trade-exposed sectors pending a comparable carbon cost on imports.



ACTION FOR GOVERNMENT

- Support a comprehensive climate change policy, provided that proposed measures such as a carbon price (on large emitters) deal responsibly with the adverse cost impacts on domestic producers pending a comparable carbon cost on our overseas competitors (i.e. imports)
- Address the loss of competitiveness that trade-exposed industries (such as solid wood processing) will experience under the carbon price (i.e. potentially under assistance programs such as the Jobs and Competitiveness Program and access to clean technology programs)
- Support other measures for achieving efficient and effective outcomes, such as clean technology programs and direct incentive programs for sequestration that can improve productivity and generate multiple economic, social and environmental benefits.

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BUILD RESOURCE SECURITY

PLANTATION FORESTS

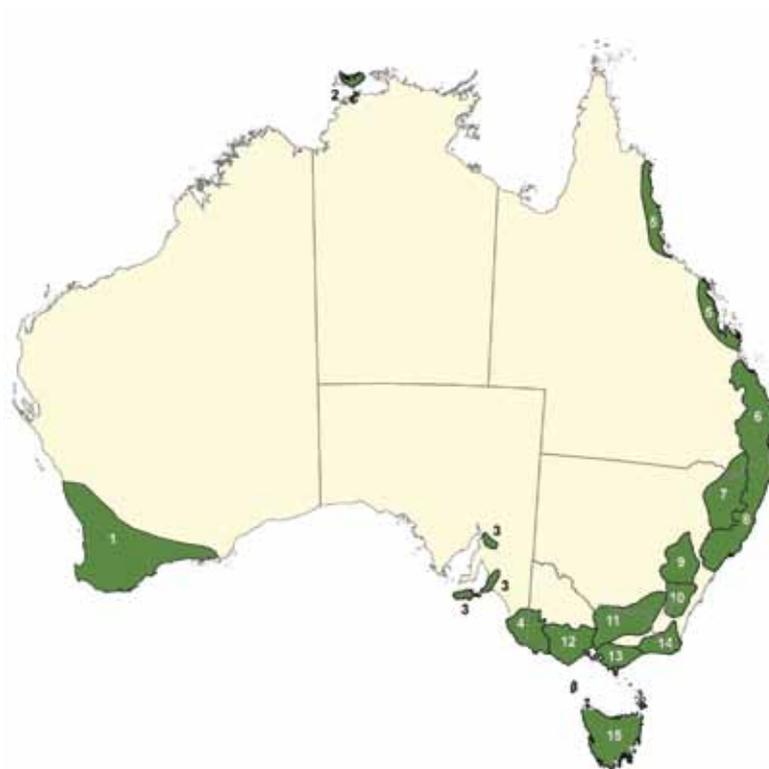
A NEW DRIVER FOR PLANTATION EXPANSION – PAYMENT FOR FUTURE CARBON STORAGE

Plantation establishment in Australia has stalled and, without further plantation expansion, processors reliant on plantation forests face an uncertain future. A new driver for commercial plantation expansion is needed to provide a secure future for the forest processing industry.

Plantations provide a number of environmental and social benefits beyond their commercial wood value. These include carbon sequestration and storage, water quality improvements and erosion control. However, these positive externalities cannot be traded in the current market, resulting in market failure though under-investment in plantation establishment.

The forest industry is the only carbon positive sector of the Australian economy. Forest plantations offer one of the lowest cost options for carbon emissions abatement. The low carbon economy offers the opportunity to put a commercial value on some of the positive externalities provided by plantations.

Direct action through a program involving an up-front payment to the grower based on the plantation’s future carbon value offers a low cost mechanism both to stimulate investment in commercial forestry and to promote carbon emission abatement.



National Plantation Inventory Regions (Source ABARES), showing the major plantation growing regions in Australia.

ACTION FOR GOVERNMENT

- Introduce a new scheme providing an up-front payment to the grower based on the plantation's future carbon value and provide recoverable funding of \$200 million per year over three years to establish the program. The cost will be recovered through government use or sale of carbon credits as they become available

The proposed arrangement is simply a draw forward of the future value of the carbon produced by a plantation. In accepting the up-front payment, the plantation owner would hand over all rights to the carbon sequestered and stored over the life of the plantation. The program would be configured to come at a zero net cost. The cost of the upfront payment will be recovered over the life of the plantation by using the carbon sequestered and stored by the plantations to offset emissions from other sources.

An initial investment of \$200 million per year over three years would be sufficient to establish the program. Assuming an average value of the up-front payment of \$5000 per hectare, this would yield approximately 40 000 ha per year. Once established the program would become self-sustaining with the area previously planted yielding carbon credits that can then be used for the upfront payment for the new plantations.

Within the first 10 years of the program this could generate 12 million tonnes of carbon emissions abatement per year from the carbon stored in the trees. Longer term abatement opportunities would include the carbon stored in the harvested wood products, the substitution of higher emissions materials such as steel and aluminium and the renewable energy produced from forestry and wood processing biomass residues such as sawdust.

IMPROVING THE MIS ARRANGEMENT

The plantation taxation arrangements were successful in stimulating private investment to expand the short-rotation hardwood resource. However, it was far less effective in attracting investment in long-rotation plantations that are typically grown for sawntimber.

The arrangement relied on managed investment schemes (MIS) to pool a large number of small retail investors seeking a to manage tax obligations, creating many inefficiencies. There were also problems associated with some MIS companies planting on poor quality sites and a long distance from a port or market. Following the collapse of many forestry MIS companies, the industry recognises the need to ensure that future MIS taxation arrangements are subject to appropriate financial due diligence controls.

Despite these recent problems, the MIS taxation arrangement which supported these investments remains a viable investment vehicle to support plantation establishment, subject to appropriate standards of due diligence and corporate governance.

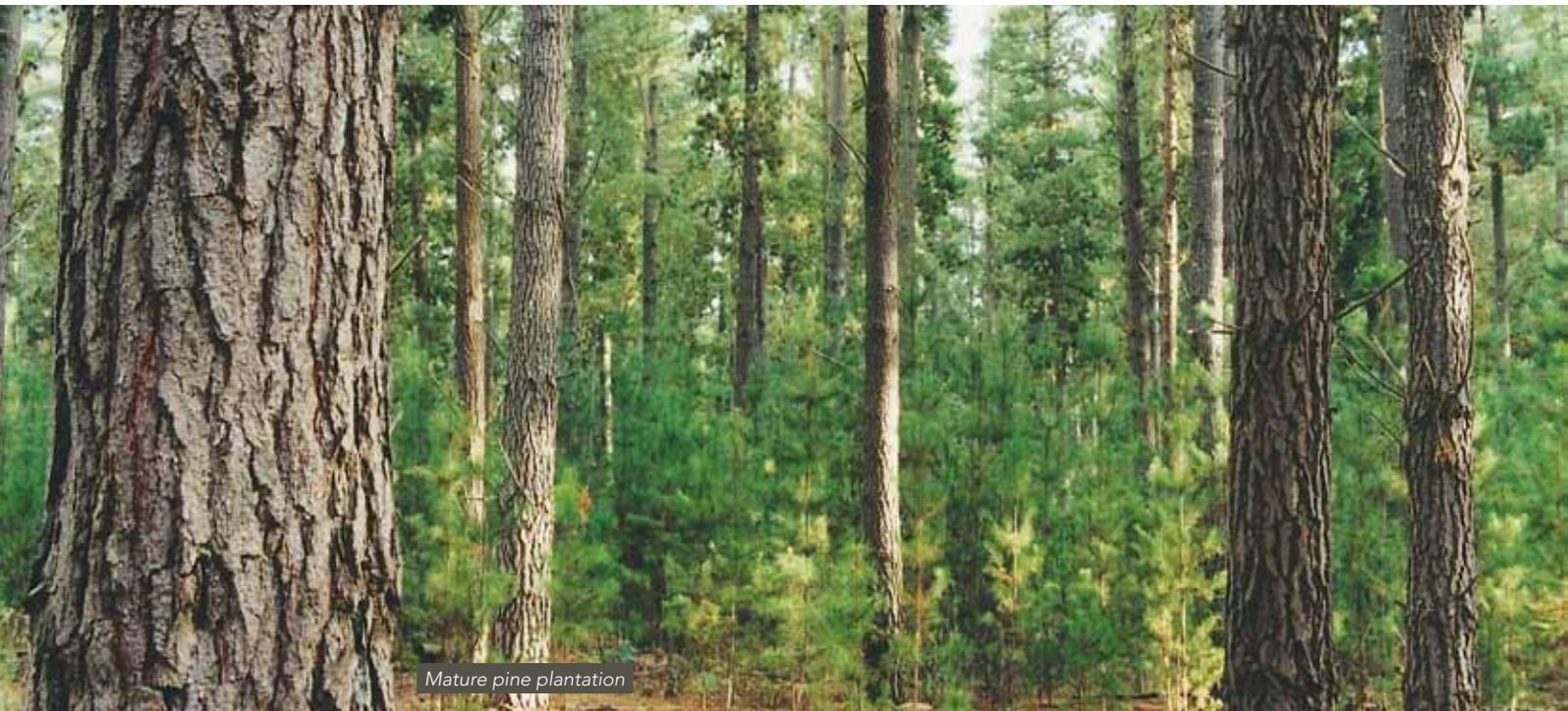
The MIS taxation arrangement should be strengthened to include enhanced financial safeguards to protect investors as well as include better scope for wholesale (corporate) investors wanting to manage their corporate tax obligation and build a better asset. This will improve the efficiency of the forestry MIS arrangement and address many of the negative issues arising from the earlier forestry MIS arrangements.

A wholesale investor could either establish the plantation directly or contract a plantation management company to establish the plantation. This eliminates the high fees and charges of some MIS companies and financial advisers. It also gives the plantation owner greater control over where the trees are planted to ensure they are located on highly productive sites and close to a market or port.

Reinforcing the existing arrangement that allows secondary market trading of immature plantations will also improve the liquidity of plantation investment. A viable secondary market greatly reduces the risk to the investor and provides greater support for investment in long-rotation softwood and hardwood plantations.

ACTION FOR GOVERNMENT

- Strengthen financial due diligence controls to promote greater transparency and sector confidence in the MIS taxation arrangement
- Extend the scope of the MIS taxation arrangement to target wholesale (corporate) investors wanting to manage their corporate tax obligation and build a better asset
- Facilitate a viable secondary market for immature plantations



Mature pine plantation

PLANTATIONS AND WATER POLICY

From a broad landscape and water planning perspective, water resources need to be used more efficiently and managed in an equitable and sustainable manner. However, recent water policy development has irrationally targeted forestry activities relative to other land uses which can lead to perverse economic and environmental consequences.

In many jurisdictions, the development of water policy has been simplistic in its approach to the treatment of interception by plantation forests. There is inadequate recognition of the broader socio-economic and environmental benefits from plantations and a failure to include interception by other dry land crops in the planning framework.

ACTION FOR GOVERNMENT

- Amend water management policies and regulations to ensure they are based on:
 - evidence and sound science
 - equitable treatment of all land uses. Forest plantations are an as-of-right activity and must be treated on an equitable footing with other dryland agricultural land uses
 - appropriate baselines when assessing impacts. The baseline must not be retrospective and recognise the historical mix of land uses in a region when calculating impacts on the total water budget
 - meaningful interpretations of land use change (i.e. subsequent plantation rotations do not constitute a change in land use for long term crops such as forestry)
 - consideration of the impacts of land use change (e.g. any expansion of plantations) in conjunction with other benefits to the community and the environment

NATURALLY REGENERATED FORESTS

The Regional Forest Agreements (RFAs) are nearing their end date. Unless they are renewed, the first RFAs will expire in less than 5 years. This throws into doubt future wood supply and investment in the industry dependent on this resource.

The RFAs represent the cornerstone of native forest resource security policy, balancing the environmental and economic demands on naturally regenerated forests that are managed for a range of values including wood production. There are 10 RFAs in four states: New South Wales, Victoria, Tasmania and Western Australia. The RFAs provide investment certainty for forest-based industries, forest dependent communities and conservation, and were the result of years of scientific study, consultation and negotiation covering a diverse range of interests.

The Tasmanian and East Gippsland Victoria RFAs are set to expire in 2017 and the other RFAs conclude by 2021. To provide the resource security to underpin future investment by the sector, it is necessary to renew the RFAs, extending their life for a further 20 years. The agreements include an option for renewal as part of the third round (i.e. 15 year) reviews. There is little detail yet. A process to initiate the renewal process needs to be developed.

ACTION FOR GOVERNMENT

- Introduce a renewal mechanism for the RFAs, such that States meeting their obligation, as determined through a satisfactory outcome of the third (15 year) RFA review, are offered an evergreen 20 year extension process to the RFAs
- Provide funding of \$8 million (\$2 million for each state) to assist the States to complete the RFA reviews and initiate the renewal mechanism



A harvested and regrown forest which provides a range of environmental and recreational benefits in addition to wood production

4

COMPETITIVE ENERGY NETWORKS

Processors and manufacturers of wood, paper and engineered wood products are significant energy users. These industries, like much of manufacturing, have experienced low price rises for their products for many years and increasing quality and performance demands.

While the industry has been able to contain costs through increased efficiency and scale, competitive sourcing of raw material inputs and generating much of its own energy, it is unable to control the costs of inputs, including energy and energy distribution which essentially come from non-import-competing monopoly sources. Significant energy price rises in recent years threaten the continued viability of Australia's forest products and pulp and paper industries. Internationally competitive energy costs are essential if manufacturing in Australia is to survive.

Appropriate policy mechanisms need to be developed and implemented to stabilise energy use and improve energy productivity. Care needs to be taken to ensure these are aimed at the right users to achieve the desired outcomes. Each additional program imposed on industry adds cost burdens, erodes competitiveness, and must be justifiable not only in its effects, but also alongside a carbon price.

ACTION FOR GOVERNMENT

- Deliver competitive and efficient (low cost) energy networks for wood and paper manufacturing users, including affordable gas and associated gas infrastructure. In doing this, government should recognise significant price increases associated with the exercise of generator market power in the National Electricity Market
- Accelerate efforts to improve competition in the wholesale electricity market including higher penalties and rule changes to limit the potential exercise of generator market power
- Broaden and increase the transparency of the rules for increasing network investment and investment in interconnector capacity to reduce costs for energy users
- Introduce measures to ensure that the development of appropriate policy mechanisms to stabilise energy use and improve energy productivity are aimed at the right users to achieve the desired outcome and mitigate additional cost and regulatory burdens
- Increase the availability of renewable energy under the Renewable Energy Target (RET) regulations by:
 - ensuring that wood waste is classified as a renewable energy input; and
 - amending the RET rules to enable renewable energy certificate creation from the renewable heat component of cogeneration circuits

5

IMPROVE MARKET ACCESS

CERTIFICATION SCHEMES

The uptake by industry of internationally recognised certification schemes has contributed to the environmental credentials of forest managers and forest product suppliers. Certification of wood and paper products is becoming increasingly important in maintaining market access across domestic and export markets, as well as in public and private sector procurement policies.

The area of certified forest is some 10.4 million hectares. This certification is to either the Australian Forestry Standard (AFS), as recognised by the Program for the Endorsement of Forest Certification (PEFC), or by the separate Forest Stewardship Council (FSC) scheme. A technical review of the AFS is underway. FSC, which does not recognise the Australian standard, has interim standards based on an FSC international framework.

There has also been a proliferation of other environmental rating schemes claiming to offer environmental credibility. However, many wood markets internationally and domestically have been distorted by these schemes, with impacts on domestic industry and jobs. A close look at these schemes is needed as many are voluntary and not scrutinised as to whether they deliver environmental credibility and market transparency to consumers. Importantly, many of these schemes do not recognise the total life cycle impacts of materials and, as such, do not take into account the embodied energy from the manufacture of products.

TRADE AND MARKETING

With an expanding population, aging stock and high forecast demand for new housing over the next few decades, the forest industry can provide a versatile range of building products for structural, commercial and high quality appearance uses. Domestic and overseas studies have identified the low energy inputs and carbon mitigating and sequestering benefits of wood products compared with other building materials such as steel, brick and concrete.

Improved trade and marketing policies that recognise these benefits, as well as the high levels of environmental standards operating in the domestic forest, wood and paper products industries may assist in addressing Australia's \$2 billion trade deficit in forest products.

Given concerns about the import of illegally logged timber, Australians must support initiatives to promote good governance and sustainable forestry practices in suspect country sources as well as directly tackle illegal products entering the country that

ACTION FOR GOVERNMENT

- Review the proliferation of voluntary environmental rating schemes in terms of market transparency and triple bottom line impacts
- Promote the further development of credible third party certification schemes for sustainable forest management in Australia, including the review of the AFS and development of the FSC national standard subject to appropriate standards of good governance and transparency
- Ensure building codes and energy rating schemes do not unfairly restrict the use of wood products, adopt building system approaches, and recognise the life-cycle benefits, low embodied energy and carbon footprint of wood products





Australian made renewable consumer items include tissue, newsprint and copy paper

undermine our domestic competitiveness. However, it is important that such illegal logging policies do not impose unnecessary regulatory burdens and high compliance costs on domestic producers. The Australian forest industry is already subject to a legal framework with the highest environmental and sustainable forest management standards, and maintains internationally recognised third party certification.

Australia must also maintain a level playing field in global forest products trade (especially with occurrences of predatory pricing and dumping). While recent reform of anti-dumping and countervailing policies have made some progress, additional measures and effective implementation of reforms are needed to achieve fairness for domestic producers, including a system of information disclosure and corrective measures to promote parity for all competitors.

The current system requires domestic producers to prove that dumping is occurring, usually without importers' cooperation and at significant expense. Better monitoring and public disclosure of trade data are needed in addition to quicker rulings, given the significant lags in decisions and sustained damage that can be suffered by injured parties. In dumping decisions, speed of decision-making is vital.

ACTION FOR GOVERNMENT

- Ensure equitable outcomes for domestic industries in negotiations of international trade agreements
- Implement an effective framework to inhibit the importation of illegally harvested wood and paper products into Australia. A framework that promotes a level playing field, is cost-neutral for domestic producers, and effectively prevents the importation of illegally sourced products that undermines domestic industry competitiveness. Through this process it is important to acknowledge the need to minimise additional red tape
- Reform anti-dumping and countervailing policies to achieve fairness for domestic producers, including an improved system of information disclosure and corrective measures to promote parity for all competitors.
- Broaden and improve public procurement policies for sustainably sourced and recycled domestic wood and paper products, recognising the high standards of corporate environmental responsibility in Australia. (e.g. recognition of an Australian ethical quality mark or similar certification for paper products)
- Investigate incentives for improved domestic recycled paper manufacturing



PUBLIC COMMUNICATIONS

The forest, wood and paper products industry recognises the positive role that many environmental non-government organisations (ENGOS) play in promoting sustainable forest management and addressing key issues such as illegally sourced imports. However the industry is concerned about the behaviour of some ENGOS. It is not in the interests of the nation that future governments allow the industry to be subjected to factually misleading or disruptive campaigns from some extreme ENGOS, particularly with respect to workplace invasions and related health and safety issues.

Actions by some environmental NGOs continue to undermine the markets of forest industries by the dissemination of misleading information through both social and mainstream media. Industry remains concerned, and the public should be concerned, about the regulatory framework for ethical standards of public disclosure and truth in advertising by non-government organisations.

Importantly, these groups are often the beneficiaries of tax free, charitable status as conferred by government. With such status should come the important expectation to behave in a responsible manner that does not undermine public trust and confidence in businesses with high standards of social and environmental responsibility in the sector nor destroy their markets.

The forest industries support around 120 000 jobs nationally with a gross value of turnover of around \$22 billion. Public state forests are also managed for a range of purposes in addition to wood production, including recreation, water quality and biodiversity values.

Forest policy should actively promote communication to the public of the multiple benefits of sustainable forest industries. Better public communication and awareness programs are needed, recognising the renewability of trees, wood and paper products and the large proportion of forest reserved in conservation areas in Australia.

More active promotion of Australia's forest based industries is advocated, recognising the significant environmental, economic and social benefits they provide to the national economy (as well as to rural and regional Australia) through the growing, processing and marketing of wood products.

ACTION FOR GOVERNMENT

- Actively promote communication to the public of the multiple benefits of sustainable forest industries, recognising the large proportion of forests managed by state governments for multiple-uses including wood production
- Undertake a review of the regulatory framework for ethical standards of public disclosure by non-government organisations
- Extend the reach of the Australian Competition and Consumer Commission to non-government organisations to promote truth in advertising

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THE INVESTMENT ENVIRONMENT

A stable and transparent investment environment is needed, particularly given the relatively long time frame for forest and wood products investments. This environment includes the effective operation of macroeconomic and industry regulatory arrangements and predictability in policy settings that reduce sovereign risk. Importantly, a whole-of-government approach is needed that provides consistency in policy across Government portfolios and departments. Two important outcomes from a stable regulatory framework include enhanced opportunities for domestic value adding and significant carbon emissions abatement.

There should be a strong public policy supporter in the forest and wood products industry. It utilises a renewable resource and has the capacity to assist the transition of the Australian economy to a sustainable future. This transition is linked to innovation and technology, including the expansion of traditional and leading edge markets for forest products as well as emerging new markets for carbon and related environmental services. The full realisation of value adding and climate change opportunities will be determined by the industry's ability to embrace these new and developing technologies and services, such as world class processing technologies and the use of woody biomass as a renewable energy source. It is important that Government assist in facilitating the emergence of these opportunities.

The most basic investment variable is security of supply of wood inputs, both plantation and natural. In recent decades, a steady reduction in the availability of native hardwoods has been accompanied by some increase in wood production from plantations. However, the recent downturn in the global economy and the general policy settings for investing in Australia have led to only limited capital investment in plantation processing facilities.

The Australian industry also needs to be protected from illegally sourced imports of wood and paper products and dumping practices. Imports derived from illegal logging are less expensive to produce than responsibly and sustainably harvested wood production. This price advantage for unsustainable logging needs to be eliminated. As for dumping, it is entirely in the hands of government to ensure that norms on dumping are implemented speedily and effectively – which by and large is not the situation at the moment.

The ongoing competitiveness of Australia's forest industry will depend on sustained levels of investment as the industry continues to experience changes in its available resource base. Recently, Australia has experienced an increase in the planting of hardwood plantation pulpwood resources which will come on-stream for harvesting over the next few years.

But this has not made real inroads into Australia's \$2 billion trade deficit in wood products which is largely attributable to imports of paper and paperboard products. With a large forecast increase in pulpwood resources, there is a significant opportunity to add value to this resource domestically and to deliver economic and social benefits to regional communities.

Mentioned elsewhere is the investment proposal for encouraging plantation expansion through up-front payment for carbon capture – an environmental payment for public good outcomes delivered by the forest sector. This needs to be complemented by appropriate investment support whereby plantation development is not hampered by State and especially Local government regulation that, in terms of competing land use, may be inconsistent or distortionary.

In addition to processing for woodchips, further investments are needed to add significant value to these resources. Recent experiences are probably best represented by the attempt to establish the Tasmanian pulp mill where there are lessons for both the investor and the government. The facilitation of further domestic processing and internationally competitive scale projects will be critical in ensuring future value adding in Australia, reducing the trade deficit in forest products and boosting regional economies and employment.

ACTION FOR GOVERNMENT

- Complement private sector investment into domestic downstream processing of Australia's hardwood pulpwood resources and for existing and new high value sawlog processing facilities.
- Develop an effective regulatory and planning approvals framework
- Assist in cost reduction in the industry by refraining from adding to road usage charges, streamlining Work Health and Safety laws through working with the States, reforming Industrial Relations legislation to encourage productivity and flexibility, eliminating dual environmental approval processes for major proposals and promoting the use of industry production wastes for all types for energy generation
- The industry seeks incentives, approvals and investment facilitation comparable with other countries, for example, through streamlined planning processes, reduced sovereign risk and transparent and stable incentives for renewable energy from forest bio-mass and heat capture and transfer technology





INFRASTRUCTURE, SKILLS AND R&D

INFRASTRUCTURE

A key aspect of successful forestry project development is ensuring that associated infrastructure, such as roads, rail and port facilities, is developed in step with the growing needs of industry. There is also a requirement for future links with emerging energy markets and infrastructure from biomass resources, such as forestry wood wastes. The established and growing plantation regions of the Green Triangle in South Australia and Victoria, Great Southern region of Western Australia, Northern Tasmania and the Murray Valley (Tumut/Tumbarumba) are areas where the industry is facing infrastructure constraints. These constraints, if not addressed, will detract from the realisation of the full range of positive economic and environmental benefits the industry can provide.

ACTION FOR GOVERNMENT

- Undertake a strategic study to identify the transport (i.e. road, rail and ports) and energy infrastructure requirements to underpin the development of the forest, wood and paper products industry
- Establish a funding program through Infrastructure Australia to ensure adequate implementation of forestry related infrastructure.

SKILLS

Modern forestry is a high technology industry and the development of the forest industry, in certain regions, has resulted in industry experiencing a shortage of suitably skilled workers. Paralleling initiatives in industry innovation is the need for career and skills initiatives that attract new skilled workers to the industry, retain existing workers in the industry and ensure existing workers are increasing their skills commensurately with the evolving technology.

ACTION FOR GOVERNMENT

- Continue to support Forestworks, as a national industry skills provider, to develop and implement career and skills initiatives that focus on the increasing need for highly skilled workers in all aspects of the industry
- Promote the career and life style opportunities of working in forest based industries, particularly in regional areas where there are labour shortages for skilled workers

RESEARCH AND DEVELOPMENT

The provision of research and development (R&D) is critical to innovation, technology development, and the long term international competitiveness of the Australian forest industry. In 2007-08, around \$100 million was committed by governments and industry to forest industry R&D, including research into wood processing and wood products, tree genetics and forest management. However, the level of funding for R&D has declined radically since 1981-82. The Australian forest industry is also concerned about the downsizing and restructuring of R&D within many state and federal research agencies, especially the CSIRO, which has significantly reduced forest and wood products research capability. This situation will be further compounded by the imminent loss of the CRC for Forestry. The lack of a critical mass of researchers needs to be addressed in the context of current and future expected research priorities. Given current and expected changes in resource availability from both naturally regenerated forests and plantations, research into improving the quantity and quality of wood resources will continue to be a high priority, in conjunction with value added processing.

While considerable effort has been directed into climate change research in forestry, the approach has not been comprehensive. An approach to research is needed that takes into account the net carbon footprint across the supply chain for key industries and forest regions. Such an approach would assist climate policy by taking into account carbon removals and emissions at each stage of the production and consumption process. Stages would include forest growth and harvesting, wood processing, product use (including substitution by emissions intensive materials and recycling) and post-consumer use such as wood waste for bioenergy and storage in landfills.

To help address these concerns, greater incentives for R&D and co-funding of priority R&D activities are needed. However, given the tough market conditions facing the industry at this time, there is under-investment in R&D that can provide long term benefits to the industry and economy. An effective way to promote much needed R&D is to increase the level of Government co-funding for R&D that is facilitated through Forest and Wood Products Australia, as the relevant national research and development corporation.

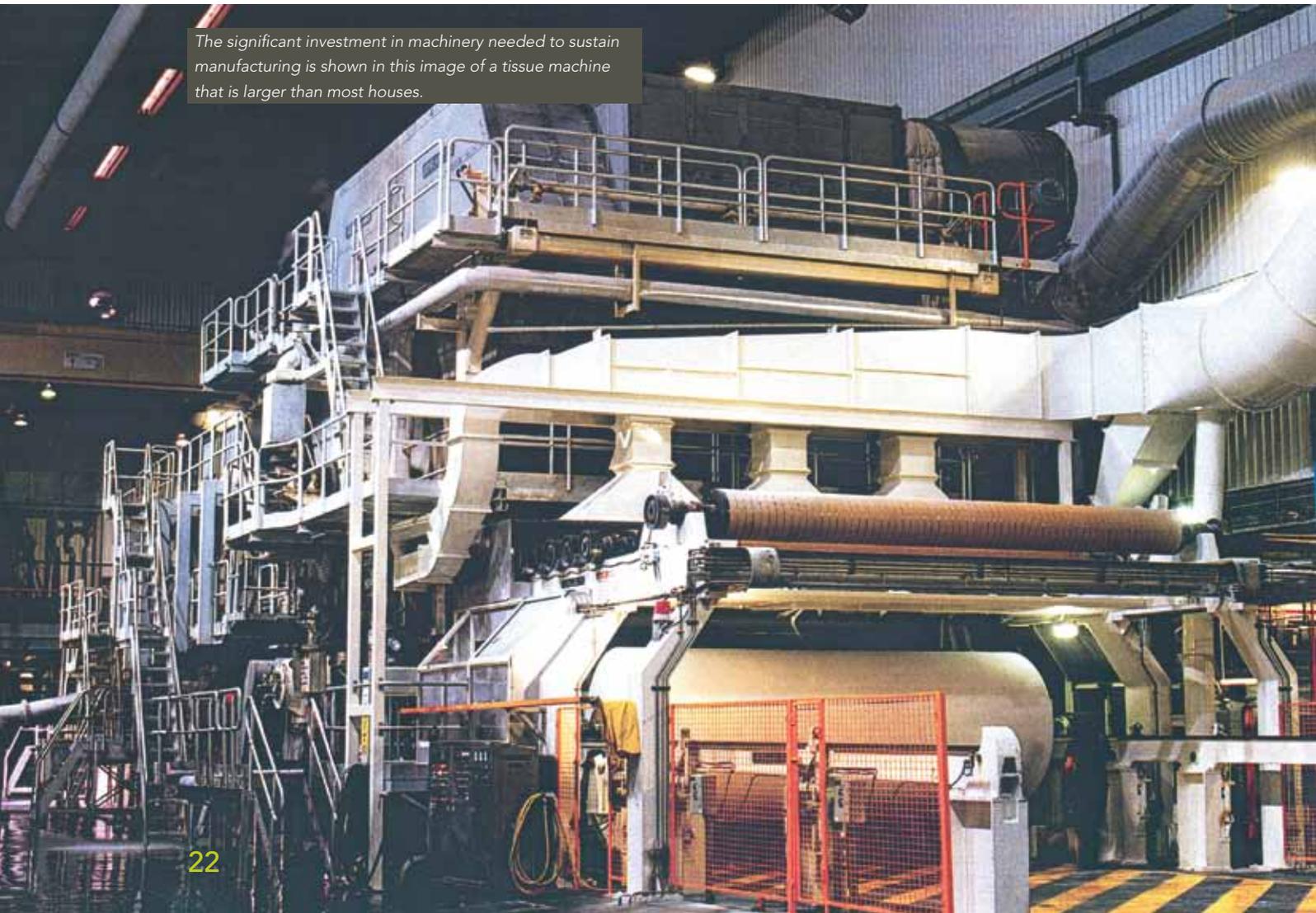
Furthermore, it is important to consolidate and maintain existing research capability in order to deliver this research. The recently announced national institute for future forest industries is a step toward maintaining this capability which needs to be supported as part of the overall R&D delivery system.



ACTION FOR GOVERNMENT

- Review, in partnership with industry, the level of funding of R&D facilitated through Forest and Wood Products Australia, with a view to increasing the level of Government co-funding from \$1 to \$2 for every dollar invested by industry
- Support further development of the recently announced National Institute for Future Forest Industries to maintain research capacity and re-establish the Pulp and Paper Industry Innovation Council
- Fund research into the future establishment of hardwood plantations for the production of high quality sawlogs and the commercial processing of those logs
- Fund key research gaps in forest sector climate change mitigation, given its significant role in providing a low cost solution to emissions abatement. This would include an assessment of net emission reductions from key forest sectors and regions
- Support the development of renewable biomass technologies, including woody biomass, with biomaterial and bio-energy technology providers and suppliers
- Undertake an economic assessment of long term domestic consumption trends for forest, wood and paper products over the next ten to fifty years

The significant investment in machinery needed to sustain manufacturing is shown in this image of a tissue machine that is larger than most houses.





A beginning of a new era in multi-storey construction. Part of Lend-Lease's 10 storey 'Forte' apartment block under construction in Melbourne.





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