

ANNEX 2 - COUNTRY REPORTS

AUSTRALIA

by

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What are the emerging issues facing the industry in your country?

National Political Situation

In November 2007 the Australian Labor party won the national election and assumed office for the first time for 12 years.

The new Government won the election (according to observers) because of the previous Governments Industrial Relations Policy (Australian Work Place Agreements) Lack of investment in Infrastructure (particularly roads, railways and ports) and a Lack of investment in Education and Health.

The incoming government also positioned itself as being more aware of the significance of Climate Change and outlined a plan to tackle Climate Change including the introduction of a National Emissions Trading Scheme by 2010.

Since being elected the Government has:

- Ratified the Kyoto Protocol
- Abolished Australian Work Place Agreements, and
- Apologised to the Stolen Generation.

In relation to the Plantation Products and Paper Industry the Government has announced the following specific policy initiatives.

Addressing Forestry Skills Shortages

Australia's forest industries are plagued by skills shortages. Skills Councils underpin industry-based education and training in Australia. Industry Skills Councils:

- Advise government and the Vocational Education and Training (VET) sector on current and future skills and training needs, and
- Support the development and implementation of nationally recognised training products and services.

Current training programs for the forest industries have been developed by ForestWorks, an industry-operated training company.

The Government has declared Forest Works as the new Forest and Forest Products Industry Skills Council and provide \$1 million for its implementation. This initiative will hopefully:

- Build the skill-base and capacity of the current and future forest industries workforce;

- Provide the forest industries with direct input into the National Skills Reporting system which informs government and the VET sector of future skills needs; and
- Enhance monitoring of the effectiveness of forest and forest product industry training packages.

In addition to the Government initiative the Industry through A3P and NAFI jointly produced a DVD entitled “Reach for the SKIES”. Funding was provided by the Australian Government.

The DVD is a valuable resource for careers advisers, employers, potential employees, as well as organizations assisting school leavers to access training and employment. The DVD offers a 5 minute preview and a 15 minute feature using modern filming techniques and fantastic case studies on the many long – term and meaningful career opportunities.

Every secondary school in Australia will receive a copy of the DVD as well as companies and organizations to use at careers fairs or school visits. (Some copies are available at the meeting).

In addition to the Reach for the SKIES DVD A3P and NAFI are developing an information brochure that provides industry employers with the information about the National Training System and ways in which they can address their labour and skills need using the system.

Boosting the Export of Forest Products

The Government will help boost the export of forest products through the establishment of a \$9 million Forest Industries Development Fund.

Australia continues to record a significant trade deficit in forest and forest products, with imports totalling \$4.2 billion in 2005/06 and exports totalling only \$2.1 billion.

The Forest Industries Development Fund will encourage ongoing investment in value adding initiatives. Funding of up to \$9 million will be provided on the basis of a matching commitment from relevant State Governments and applicants.

Building a Forestry Industry Database

The Government has promised to address the forest community’s need for a comprehensive industry wide data base.

The Wood and Paper Products Industry Skills Shortage Audit, undertaken by A3P and NAFI in 2006, found that a lack of industry specific data was a significant factor influencing the sector’s ability to identify areas of skills shortages and inform workforce planning and skills development.

The Government has committed \$1 million to:

- Update the data contained in Forest and Wood Products Industry Workforce and Industry Data Collection research project
- Expand this data base to meet the future information needs of both government and industry, and
- Develop world’s best practice benchmarks for the forest and forest products sectors.

Climate Change

The Government has invited A3P to commence the development of the Climate Change and Forestry Adaptation Action Plan identified in the National Climate Change Adaptation Framework, addressing:

- Key impacts, vulnerabilities and research priorities
- Potential adaptation tools and strategies in collaboration with industry, and
- The integration of climate change strategies.

The Government will also invest \$8 million in addressing major knowledge gaps about the impacts of climate change on forestry and the vulnerability of forest systems.

The Action Plan, which is funded by the Department of Agriculture, Fisheries and Forestry, will provide a national strategic framework for industry decision making and business planning in the area of climate change management.

The Plan will help the industry to respond to climate change through mitigation and adaptation, underpinned by research and development, and communication. Sectors covered by the Plan include tree planting for commercial purposes (other than exclusively for carbon), native forests managed for wood production, and processing facilities (sawmills, board plants and pulp and paper mills).

The Plan will consist of five major streams:

- Information and communication – including an assessment of the industry's existing greenhouse footprint; industry's estimates of what it may contribute under various carbon cost scenarios and an audit of existing projects and initiatives in the area of the forest industry and greenhouse.
- Adaptation – including prioritised information requirements; an audit of existing information; current initiatives that will deliver further information; and further work required.
- Mitigation – including opportunities for greenhouse gas mitigation in emissions trading.
- Bio-energy and bio-refineries – an assessment of current research and development initiatives (Australian & overseas); barrier analysis of thresholds and hurdles to implementation; identification of next steps for research and implementation.

Preparing industry to address threats and opportunities – a focused and practical distillation of the actions needed to manage the risks and capitalise on the opportunities for the industry and for greenhouse mitigation.

Following finalisation, endorsement of the Plan will be sought from COAG under the Natural Resource Management Ministerial Council and Primary Industries Ministerial Council framework. The Plan will then have status as the Forestry & Climate Change Action Plan.

National Emissions Trading Scheme

A3P supports the development and implementation of an Australian emissions trading scheme provided the international competitiveness of emissions-intensive, trade-exposed industries such as pulp & paper manufacturing can be maintained. There are a number of basic principles that should be cornerstones of a domestic scheme design:

- A minimum of rules that limit the choice or level of abatement options.
- Timeframes that are appropriate for both the required investments (40+ years) and the duration of the environmental challenge.
- The scope should be as broad as possible.
- The accounting methodology should reflect the true fate of carbon.
- It must be national in scope, institutions, administration, implementation and management.
- Other Government energy efficiency, energy reporting and greenhouse reporting programs be removed.

- The right to emit should exist as a secure property right.
- A viable quantity of permits, that cover investment timeframes, should be issued to allow transparency of price and ability to hedge risk.
- The scheme must be based on simple, rigorous, efficient accounting rules that minimise the cost of measurement, compliance and transactions.

There are certain design elements of an emissions trading scheme upon which the support of the plantation products and paper industry is conditional.

- Forest carbon storage should be included in the scheme design.
- There should not be any artificial limitations on the amount of abatement that can be achieved through any particular means such as forestry.
- Carbon accounting that acknowledges that carbon remains stored in timber while it is in use and for many decades after disposal.
- All competing building materials (such as steel and concrete) in the domestic market must equally face the full carbon cost for emissions during their manufacture.
- Baselines should be set in manner that does not disadvantage early movers in the production and use of renewable energy.
- Other Government impediments or restrictions on the use of waste for energy production must be removed.
- Measures must be included to maintain the international competitiveness of emissions-intensive, trade-exposed industries, such as pulp and paper production, for as long as a viable global regime is not in place.
- These measures should include:
 - simple, streamlined processes
 - stable treatment of companies, facilities and products
 - durable rules and procedures
 - detailed, unambiguous criteria and rules that prescribe how decisions will be made
 - decision-making that is rigorous and fact-based.

Decision-making and regulation through a body that has authority to make determinations but is clearly separated from Government and political influence.

Water

Much of Australia continues to be gripped by the worst drought on record which has provided increased impetus to moves to reform the system of water management and allocation in Australia. The Australian Government has reconfirmed a commitment to A\$10 billion over ten years to speed up the implementation of the National Water Initiative (NWI) with a particular focus on the Murray Darling Basin. The NWI outlines a range of commitments to reform (reduce) water allocation for agriculture and return water for environmental flows. Most of the changes will be introduced via a regionally based planning and management approach.

The NWI identifies change of land use to industrial scale plantations as an example of a potential 'significant water interception' activity which may be subject to regulation depending on further consideration of significance and the level of commitment of water in the catchment concerned.

The State governments are now grappling with the implementation of the many complex aspects of the NWI. With the notable exception of one region, South East South Australia, the technical complications associated with quantifying plantation water interception appear to have delayed any precipitate action to regulate plantation expansion in most areas. The situation in South East SA is a major concern to the plantation industry as it is a major plantation growing region and it appears that

the proposed water policy will have implications (water costs) for existing plantations areas not just new plantations, as had been previously anticipated.

If implemented as per the draft proposal it will also be inconsistent with the NWI. A3P represents the forestry sector on the NWC Stakeholder Reference Group.

Illegal Logging

In late 2007 the previous Government released its policy on illegal logging, “*Bringing Down the Axe on Illegal Logging – A Practical Approach*”. The approach being pursued by the previous Government was relatively “hands-off” and focused on education and helping importers of sawn timber from South East Asia to demonstrate the legality of their sources.

In a virtually unrelated decision the Australian Government also committed A\$200 million to combat illegal logging in Indonesia as part of its response to climate change.

The current Government has also committed \$1 million to work with regional governments and industry to:

- Build capacity within regional governments to prevent illegal harvesting;
- Develop and support certification schemes for timber and timber products sold in Australia;
- Require disclosure at point of sale of species, country of origin and any certification;
- Identify illegally logged timber and restrict its import into Australia, and
- Argue for incentives within the emerging global carbon markets for avoided deforestation and better management of tropical rainforests.

The Australian and Chinese Government have agreed to develop a Memorandum of Understanding to combat illegal logging by establishing a working group to identify key areas for potential cooperation. Areas of cooperation to be considered included:

- Jointly promoting legal and sustainable forest management practices in the region;
- Agreeing on definitions of deforestation and illegal logging; and
- Developing systems for verifying legality of forest products.

A3P has its own “*Member Guidelines – Stopping the Supply of Illegally Logged Forest Products to Australia*”. This was a proactive initiative by A3P to provide a practical framework for our members to demonstrate the legality and sustainability of their product.

SFM Certification

The past 12 months has seen continued activity in relation to Sustainable Forest Management (SFM) certification in Australia. Some 16 major Australian forest owners are certified to either the Forest Stewardship Council (FSC) or Australian Forestry Standards (AFS). The FSC certified forests are virtually all privately owned plantations while the AFS certified areas include both public and private plantations and public native forest. Nearly two thirds of the Australian plantation resource now has SFM certification.

FSC Australia has been established and launched with its immediate priority being the development of an FSC National Initiative for Australia.

The Australian Forestry Standard was approved as an Interim Standard by Standards Australia in 2004 and formally launched as an approved full standard in September 2007.

The Australian Forestry Certification System (AFCS) is accredited under the Programme for the Endorsement of Forest Certification (PEFC) scheme. The changes made to the PEFC scheme have

raised some challenges for the AFCS as making changes to the AFCS is not a simple process because of the consultation and approval processes required

Despite the progress outlined above there has been little change in market demand for certified wood products in Australia. Japanese woodchip customers continue to have a preference for certified wood and have been under pressure from ENGO's to request FSC certification only. The most significant development in the domestic market has been the decision by Australian Paper to market their Reflex brand photocopy paper with the FSC logo. A significant proportion of the fibre supply to Australian Paper is from FSC certified plantations managed by Hancock Victorian Plantations.

Energy Market Reform

The process of reforming the Australian energy market from a publicly owned system with limited interconnection between State based systems into a fully integrated and market based system is continuing slowly. There are major concerns for energy users that the failure to invest in new infrastructure and undue influence exerted by the large electricity generators has resulted in significant cost increases.

Average electricity costs have increased by 40 percent from the 2007 base with unit prices in excess of \$85 mw/hr

Industrial Relations & Human Resource Shortages

As disclosed Industrial Relations Policy was an important election issue. Since the election the government has abolished Australian Workplace Agreements and overtime, this will mean that wages and conditions will again become centralised.

The strong Australia economy and demographics (ageing population), are leading to a significant shortage of employees with appropriate skills. This situation is accentuated for the wood product and paper industry because of its rural location and perceptions that the industry is dirty and dangerous.

What are the most important business developments within your industry over the last year?

Economic Situation

As a result of the international resources boom driven by Chinese demand, the Australian economy has remained relatively strong, however this has put significant pressure on the Reserve Bank of Australia (RBA) target inflation figure of 2 to 3 percent.

As inflation is now running at 3.5 percent per Quarter the RBA has increased the cash rate to 7.25 percent in April 2008 the highest rate for 12 years. While unemployment remains low a series of interest rate rises has dampened consumer sentiment and Housing Loans have dropped. The sustained and increasingly high level of the Australian dollar, particularly against the US dollar, has presented significant challenges for exporters and import competing business including paper and wood panels.

The new housing construction market, the primary driver for the sawn timber industry, which had been strong for an unusually long period finally began to soften in late 2004 and has continued to be very weak with significant implications for sawntimber demand particularly in the major Sydney and Melbourne markets.

Investments in Wood and Paper Manufacturing

The past 5-10 years has seen continued investment in new processing capacity in the wood products (sawn timber and panels) and paper industry in Australia. Much of this expansion has been driven by the increased wood availability resulting from the maturing of the softwood plantation resources established in the 1960s and 70s. As a result of this expansion there is now relatively little uncommitted wood available in Australia unless new areas of plantation are established. The major exception is the large area of short rotation eucalypt plantations in SW Western Australia, Western Victoria and Tasmania which will be coming on-stream in the near future and are currently destined for export in chip form.

There are numerous proposals under consideration for the establishment of new pulp mills in Australia. Probably the most advanced of these is the Gunns Ltd proposal to build a A\$1 billion bleached eucalypt Kraft mill in Tasmania. Gunns is currently the world's largest exporter of hardwood woodchips and the proposed mill would consume a significant proportion, but not all, of Gunns' current export volume. The proposal continues to encounter significant opposition from local environmentalists.

The Government and Opposition both support the Pulp Mill.

Australian Paper is undertaking a major upgrading of pulping capacity at Australia's largest printing and writing paper making facility at Maryvale in Victoria. Visy Industries has announced that it will double the capacity of its Tumut mill. The mill produces packaging paper from plantation grown softwood and commenced operation in 2001. The Visy Tumut mill was the first Greenfields pulpmill built in Australia since 1982.

Review of the Taxation of Plantation Forestry

In June 2007 the previous Government enacted legislation that continued to provide tax deductibility for managed investment schemes (MIS) in Plantation Forestry.

However MIS Plantation Forestry companies must establish the plantation within 18 months and also demonstrate to the Tax Office that at least 70 percent of the funds collected will be for "direct forestry expenditure" and not for expenses such as marketing and commissions.

The new legislation now enables Plantation Forestry Investors to trade out of their investment after four years. This will generate market liquidity and help much needed long-rotation Sawlog Plantations compete equally with short rotation pulpwood.

The current taxation arrangements have been a fundamental factor in the significant plantation expansion that has occurred over the last ten years or so. New plantation establishment has averaged around 80 000 ha per annum over that period.

A number of issues flowing from the new Legislation are worthy of note including:

- The Government has again shown its support for the Plantations 2020 Vision and the benefits of continued expansion of plantation forestry.
- The plantation industry has been successful in convincing the Government of the social, environmental and economic benefits of the plantation timber industry.
- A distinction the Government has drawn between forestry and non-forestry investment does potentially expose the forestry investment sector to additional or renewed criticism from anti-forestry interests.

Employment

In 2005-2006 there was 83,000 people directly employed in Australian Forestry and Logging Industry. It is estimated that 66 of the 1,353 ABS local areas are economically dependant on the Timber Industry. Most public forest is available for recreation and tourism, regardless of whether it's managed for construction, environmental protection or wood production.

Indigenous Support

A3P and other sectors of the Australian Industry have signed a Memorandum of Understanding with the Indigenous Community to identify and deliver employment opportunities for Indigenous Australians. A National Indigenous Forest Strategy has been endorsed and a Communications Strategy is being developed.