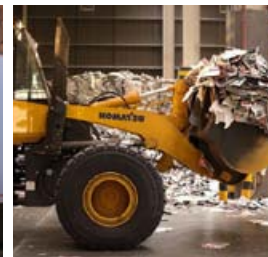


Pulp & Paper

Industry Strategy Group



Executive Summary **Final Report** March 2010



Executive Summary



Introduction

The Australian pulp and paper manufacturing industry is a significant contributor to the national economy. It consists of over 440 enterprises directly employing nearly 19,000 people, many in rural and regional areas where the industry is often the economic and social focus of those communities. The industry generates around \$12.6 billion in domestic demand, produces total value added of about \$2 billion, earns more than \$1 billion through exports, and imports nearly \$3.5 billion in goods. However, the industry is in crisis, with employment, investment and exports all falling.

On 19 June 2009, Senator the Hon Kim Carr, Minister for Innovation, Industry, Science and Research, commissioned a review of the pulp and paper manufacturing industry. The purpose of the review was to recognise the industry's competitive advantages and identify the significant opportunities available to the industry to grow, increase its profitability and become internationally competitive. The Minister brought together the key decision makers from companies and unions along with leading industry experts, researchers and government representatives to identify these growth strategies.

This report should not be considered a 'government' report. It is a review *of* the industry *by* the industry and has been prepared for the consideration of the Australian Government. The views and recommendations in this report should not be considered as endorsed by the Australian Government or any state government. The Australian Government is expected to respond to the report and its recommendations as appropriate.

The Australian Pulp and Paper industry

The Australian pulp and paper industry produces items that are essential to everyday living such as paper and paper products for personal hygiene, paper for packaging foodstuffs and liquids, and paper for printing, communications, newspapers and magazines. The industry is also a large producer of renewable energy and the major user of recovered paper for recycling.

Indeed, sustainability is central to the pulp and paper manufacturing industry. According to the International Council of Forest and Paper Associations, the industry, in cooperation with its upstream and downstream partners, can deliver much of what is needed to address challenges such as:

- jobs and prosperity in rural areas
- sustainable forest management that mitigates deforestation and degradation
- industrial processes that help reduce greenhouse gas emissions
- sustainable and secure energy supply with biomass
- optimisation of renewable resources through high levels of recycling
- technologies and innovation that deliver added value.²

The continued progress towards a society based upon predominantly digital communications and 'paperless offices' presents both challenges and opportunities for the pulp and paper industry. It has an important role to play in Australia's future prosperity, especially in regional areas where it produces crucial income and employment opportunities for thousands of Australians.

Industry transformation is vital to keep pace with changing technologies and to maximise the benefits these new technologies offer. The challenge of transformation is not unique to pulp and paper: it is shared by all areas of traditional manufacturing.

However, the Australian pulp and paper industry is at a tipping point, with no guarantee of survival into the future. It faces a difficult market environment, with many challenges—economic, environmental and technological—from both domestic and international sources.

The economic performance of the industry, in general, is stable at best—its economic contribution to Australia remains static, the number of people the industry employs directly is falling, in general terms it is investing less and specific expenditure on R&D is low. The verdict is clear—the Australian pulp and paper industry must undergo significant change if it is to have a sustainable, long-term future. If the industry continues to falter, not only will its Australian-made products disappear, but with them the opportunities to address wider problems.

Challenges

The Strategy Group has identified many significant challenges facing the industry, including:

- loss of demand for its products due to the consequences of the global financial crisis in late 2008 and early 2009
- increased consumer and business use of digital communications, resulting in a slowing of the growth in consumption of paper-based communication, including newspapers
- increased competition from cheaper imports, often using fibre from unsustainable sources, resulting in an uneven international playing field
- projected shortages in available wood-based fibre to provide feedstock for existing pulp and paper facilities, especially due to limits on timber plantation establishment

² *Sustainability progress*, International Council of Forest and Paper Associations, 2009.

- escalating costs of key industry inputs, especially electricity, and limitations on the ability of the industry to capitalise on its innate energy generation capability
- level of investment has been low—those mills lacking investment are facing closure while others which have continued or increased investment have become automated and more efficient
- the growth of China, India and other emerging economies such as Indonesia, which is significantly altering the traditional supply and demand dynamics for paper products
- the low level of R&D by Australia’s pulp and paper companies affecting the level of innovation and international competitiveness they can achieve
- managing cyclical movements of the Australian dollar over the long term to ensure competitiveness against import competition
- government and community responses to climate change, affecting all industries in Australia, including the pulp and paper industry
- concerns and perceptions held by some sections of the community over the environmental impact of harvesting forests and of pulp and paper production, despite opportunities for the industry and environmental groups to work together on mutual environmental outcomes.³

Vision for 2020

As part of its efforts to meet these challenges, the Strategy Group has developed a vision for 2020. The industry’s vision is:

To be widely regarded as a uniquely sustainable, innovative, internationally competitive and profitable industry. Its communication, hygiene, packaging and renewable energy products provide skilled, secure jobs, while meeting the community’s social and environmental expectations.

Innovation, investment, sustainability and productivity will be the key drivers in delivering this vision. Considering these drivers, the Strategy Group has drafted a transformation strategy to assist the pulp and paper industry to meet its major challenges and achieve its vision. The strategy, summarised in Figure 1, recognises the industry’s competitive advantages and identifies the significant opportunities available to the industry to grow, increase its profitability and become internationally competitive. It sets out the strategic goals for the industry and links them to national social, environmental and economic benefits.

Competitive advantages

The Australian pulp and paper industry boasts a number of internationally competitive advantages including relatively inexpensive fibre and energy resources, a highly skilled labour force with best practice working conditions, an attractive investment and business environment, and a regulatory framework that ensures world-class, sustainable environmental outcomes. This operating environment provides a solid basis for transformation and creates certainty for further investment.

The strategy for transforming the industry recognises and builds on these existing strengths.

The industry has a history of developing and implementing innovative solutions to address problems and improve its efficiency. The transformation strategy will further encourage such outcomes. The industry has substantial experience in the production of renewable energy and significant expertise in efficient water, energy and waste management.

³ Media release on the Joint statement by the timber industry and environment groups, 24 August 2009. <http://www.timberqueensland.com.au/Docs/News%20and%20Events/Media-Releases-2009/Media-Release-Final-A3P-WWF-TQ-GP-FIAA.pdf>.

Opportunities

The opportunities that can take the Australian pulp and paper industry forward include the implementation of realistic, achievable strategies to increase investment and innovation, further development of its renewable energy generation opportunities, securing its vital fibre resources for the long term, further enhancement of the skills of its labour force, improvements to energy and transport efficiency, mitigation of its impacts on the climate and better promotion of the industry's clean environmental and ethical credentials.

This report makes practical recommendations to help the industry realise these opportunities. The recommendations are aimed at growing the industry's existing competitiveness and transitioning it to achieve its vision for 2020. The recommendations are directed at improving investment in the industry, both in the supply of fibre and at manufacturing facilities. Other recommendations focus on ensuring that energy costs—a traditional advantage for Australian industry generally—do not constrain the growth of the pulp and paper industry specifically.

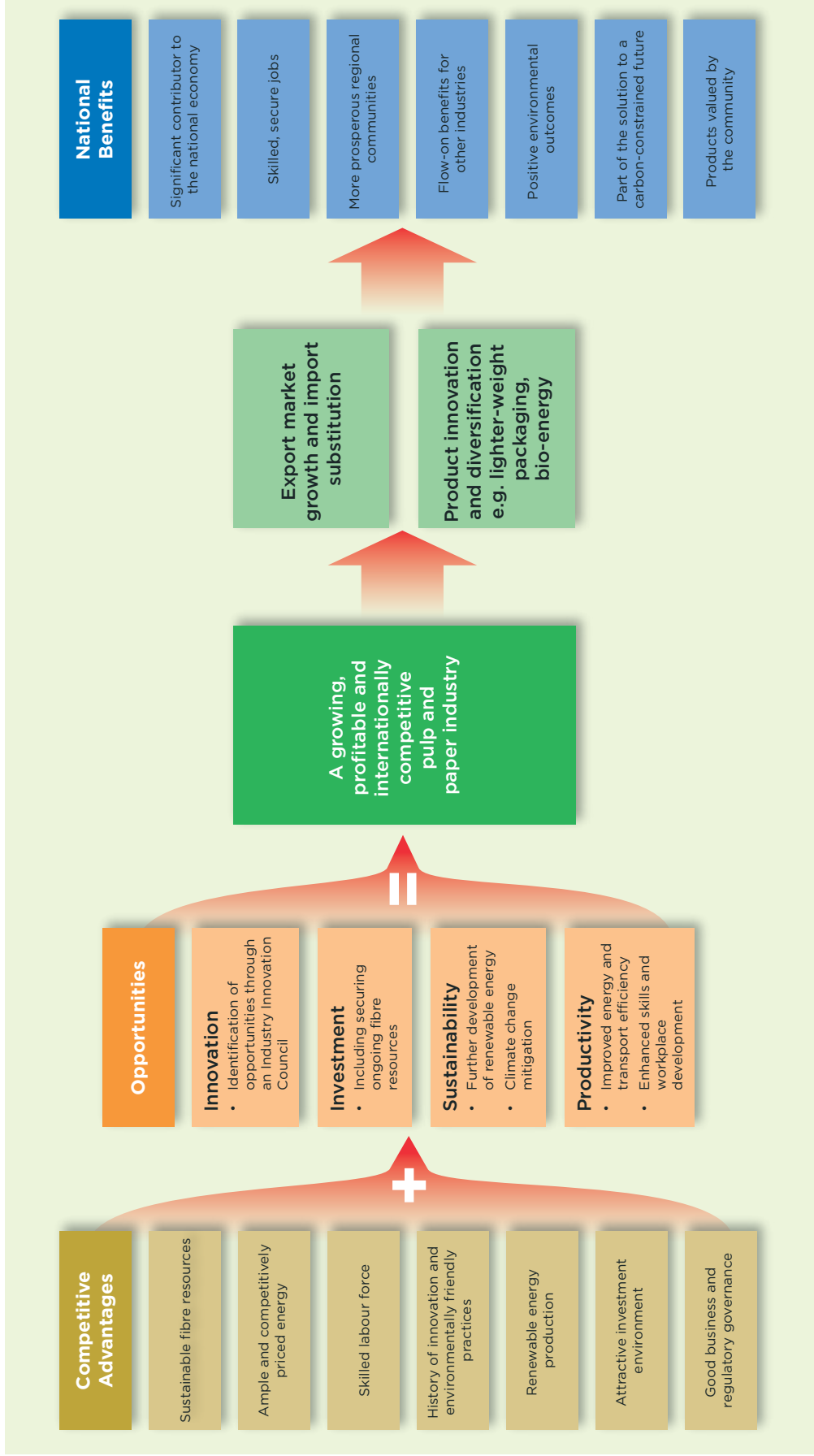
The report also recommends measures to increase the industry's competitiveness, such as:

- fostering the industry's innovative capabilities
- making transport more efficient
- improving planning and approval regulations
- addressing trade-distorting factors and ethical procurement policies for government
- providing adequate skills training to ensure that Australian workers are well equipped to meet the needs of a growing industry.

To realise these potential opportunities, it is essential that the supply of affordable domestic fibre continues. The industry is confronting a looming shortfall of economically harvested fibre and will not be able to deliver on its potential unless appropriate policies are put in place to encourage more investment in the plantation sector.



Figure 1 Transformation strategy for a sustainable pulp and paper industry



Innovation

The Pulp and Paper Industry Strategy Group has forged numerous valuable alliances and linkages in the course of its work. It is important that this work continues. The Strategy Group recommends that a Pulp and Paper Industry Innovation Council be established with appropriate funding to nurture a culture of innovation in the industry. The Innovation Council would bring together all major industry participants, from companies, unions, the research community and governments—all those who have an interest in ensuring a successful, profitable and innovative pulp and paper industry.

The industry has a strong innovation culture as evidenced through its energy and water efficiency measures. It sees an Innovation Council as a mechanism to identify innovative opportunities for the industry that focus on its competitive strengths. Industry Innovation Councils contribute to a strong innovation culture in Australia by providing strategic advice on innovation priorities to Minister Carr, championing innovation in industry and building connections with other innovation initiatives.

The Innovation Council would be tasked with implementing the Strategy Group's recommendations in cooperation with the Australian Government. It would promote stronger linkages with Australian businesses and research organisations inside and outside the pulp and paper industry, and advise the Australian Government on key innovation priorities for the industry. The Innovation Council would also play a role in advising the government on the types of forest products research capability needed to boost domestic R&D.

The focus of the Innovation Council would be on long-term issues facing the industry. Improvements in water efficiency and opportunities in bioenergy would be clear areas of interest, as would maximising Australia's existing capacities in fibre production, product innovation and renewable energy.

As an experienced processor of plant fibre, the industry is uniquely placed to make a valuable contribution to the production of renewable bioenergy. Accordingly, the Innovation Council would play an essential role in developing the terms of reference for an appropriately funded Biorefinery Research Institute. The institute would ensure that any move to develop bioenergy is evidence-based and uses the most appropriate science and technology available. Much work has been done overseas in relation to biorefineries, and the work of the institute would be tailored towards capitalising on the competitive strengths of the Australian industry in this area.

If the opportunities can be grasped, Australia can achieve a growing, profitable and internationally competitive pulp and paper industry, provided there is a level playing field that would enable the industry to compete effectively in foreign and domestic markets.

Mutual obligation

The Strategy Group recognises that companies, unions and governments all have meaningful roles to play in strengthening the industry's competitive position and in ensuring that its future is viable and profitable and engages in best practice environmental outcomes.

In Chapter 6 of this report the Strategy Group makes a range of practical recommendations to the Australian Government. In turn, the Strategy Group has also given undertakings and commitments to the government. Industry working in partnership with government in this way will achieve results that benefit the industry directly, and flow on to benefit regional communities and the nation.

For example, the industry is committed to supporting the achievement of renewable energy targets of 20 per cent by 2020 through an increased proportion of renewable and bioenergy production and the use of less carbon-intensive energy. The industry is also committed to adopting internal carbon emissions reduction targets consistent with government aspirations. A number of firms have committed to make reductions in emissions of 20 and 25 per cent by 2020 on 2005 levels.

National benefits

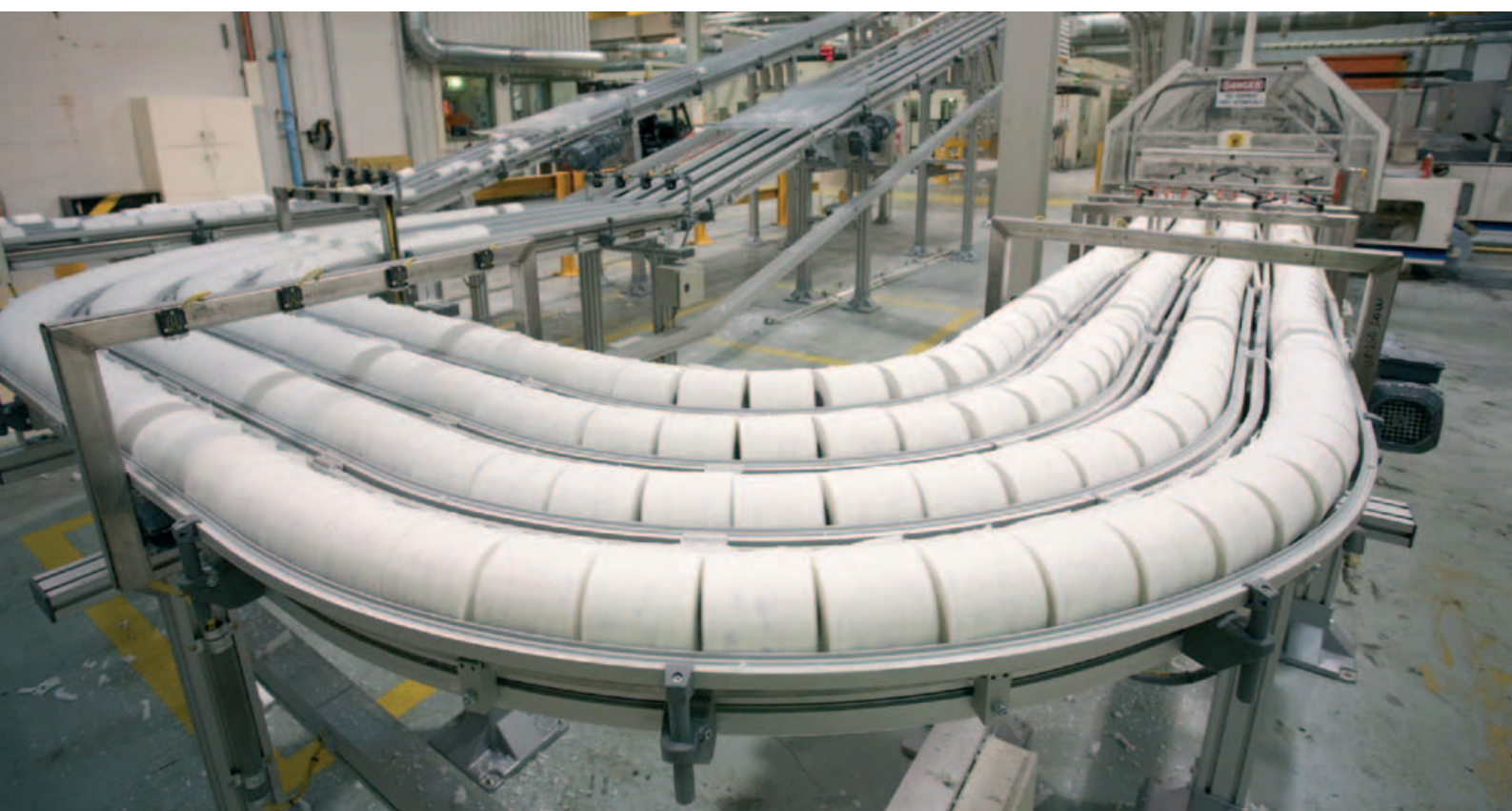
A growing, profitable and internationally competitive pulp and paper industry will generate a range of important national benefits: it can contribute to the national economy and to the incomes of Australians; create skilled, secure jobs; bring prosperity to regional communities; continue to generate positive environmental outcomes, including in a carbon-constrained future; and produce desirable, quality products that the Australian community can enjoy.

According to Allen Consulting Group, if implemented in full the Strategy Group's recommendations are expected to lead to an increase in GDP over the decade to 2020 by \$38.7 billion. Some recommendations have the effect of raising external demand or productivity, while others have the effect of removing bottlenecks and inefficiencies in the economy at large.

For example, the recommendation relating to forestry certification would lead to a significant increase in export demand for Australian pulp and paper products. This would have a value of \$40 million annually. The recommendation relating to the removal of transport impediments is also significant (GDP expanding by around \$10 million). Other notable savings would arise from the recommendations relating to gas infrastructure (GDP expanding by \$12.4 million) and training and workforce development (a benefit to the economy from a gain in output and consumption of around \$10 million).

The future

The pulp and paper industry is in crisis, with employment, investment and exports all falling. If policy settings are corrected and the industry's competitive advantages can be maintained and supported by a commitment to innovation, investment, sustainability and productivity within the industry, there are significant opportunities both for import substitution and for exports of pulp and paper products. Australia's close proximity to the growing Asian region, current supply of sustainable fibre resources, competitively priced energy, and skilled labour force all provide huge opportunities for the industry to grow and prosper. The industry has the potential to increase product innovation and diversification, as well as increase import substitution and export. In the absence of action, the competitive advantages enjoyed by the industry will be lost: underinvestment, declining profitability and further loss of employment will be the inevitable result.



Recommendations

The Pulp and Paper Industry Strategy Group's recommendations to the Australian Government can be grouped into four major themes: *innovation*, *investment*, *sustainability* and *productivity*. The first recommendation is fundamental to the entire strategy and stretches across all four themes. It deals with the government's commitment to the long-term viability of the pulp and paper industry in Australia and its workers.

Recommendation 1: The Strategy Group requests that the Australian Government make a clear public statement supporting the value and long-term viability of the Australian pulp and paper industry, recognising the industry's commitment to good environmental outcomes and its key role in the provision of economic and social opportunities for thousands of Australians, many in vulnerable regional communities.

Innovation

Recommendation 2: The Strategy Group recommends that a Pulp and Paper Industry Innovation Council be established and appropriately funded to build a culture of innovation in the industry. The Innovation Council will recognise Australia's competitive strengths in fibre production, product innovation and renewable energy, and focus on long-term issues facing the industry.

The Innovation Council will be established for an initial 12-month period and then be subject to review. It will be tasked with implementing the Strategy Group's recommendations in cooperation with the Australian Government, and developing terms of reference for an appropriately funded Biorefinery Research Institute.

Investment

Recommendation 3: The Strategy Group recommends that the Australian Government establish a plantation investment model that delivers the re-establishment and expansion of timber plantations to underpin existing processing industries or lead to the creation of new processing industries in Australia. Further, while acknowledging that the current managed investment scheme arrangements for timber plantations have led to an increase in the area planted, the Strategy Group supports improvements to the arrangements as one option for delivering a more integrated and sustainable investment model that also considers the interests of growers.

Recommendation 4: The Strategy Group recommends that, in view of the continuing uncertainty surrounding emissions trading law, the Australian Government take specific action to assist the pulp and paper industry to meet its emissions challenges and further encourage its climate change mitigation opportunities, including:

- 4a) the provision of incentives to assist industry adopt advanced heat capture and transfer technologies;
- 4b) the removal of the proposed 100 per cent cap on emissions-intensive, trade-exposed permits under the Carbon Pollution Reduction Scheme;
- 4c) encouragement of greater investment in embedded renewable energy generation at pulp and paper facilities, including establishing a Council of Australian Governments (COAG) working group to review incentives that influence investment in site-based electricity and steam generation, with the intent of increasing the uptake of these energy generation options; and
- 4d) ensuring that the Climate Change Action Fund provides assistance to larger firms that are investing in innovative projects and activities that would make a significant contribution to the reduction of greenhouse gas emissions.

Recommendation 5: The Strategy Group recommends that the Australian Government:

(5a) in conjunction with industry, develop an appropriate strategy and actively promote Australia as the preferred location for investment in the global pulp and paper industry

(5b) on a case-by-case basis, provide incentives, approvals and investment facilitation support consistent with the financial support provided by other governments to attract pulp and paper industry developments.

Recommendation 6: The Strategy Group notes the Council of Australian Governments' (COAG) decision regarding the establishment of a single integrated planning and approval system for major infrastructure projects at the state level and recommends that COAG expand the coverage of that system to include significant private sector investment projects, such as those arising in the pulp and paper industry.

Recommendation 7: The Strategy Group recommends that the Australian Export Finance and Insurance Corporation's mandate to provide investment and finance facilitation give greater weighting to major industrial investment proposals that are ethical, environmentally sustainable, add value to Australia's resources and provide income and employment in Australia, such as is provided by the pulp and paper industry.

Recommendation 8: The Strategy Group recommends that governments develop innovative and secure financial instruments that are structured in such a way as to attract new forms and types of infrastructure investment.

Such instruments could include 'convertible' infrastructure bonds, with which the initial capital stable investment during development could be transferred into equity at the conclusion of the development phase.

Sustainability

Recommendation 9: The Strategy Group recommends Government work with industry to support internationally recognised forest certification schemes (including the Australian Forestry Standard, the Programme for the Endorsement of Forest Certification and the Forest Stewardship Council's certification scheme) that provide for legal and sustainable forest management which ensures transparency, accountability and global and local consistency of application.

Recommendation 10: The Strategy Group recommends that Australian Government procurement policy be modified to recognise legitimate social and environmental standards in its pursuit of value for money. This could be done through recognition of an Australian Ethical Quality Mark or a similar certification for paper products. Such certification would represent a minimum standard for Australian Government procurement of paper and paper products.

Recommendation 11: To help achieve the Australian Government's 20 per cent Renewable Energy Target (RET) by 2020, the Strategy Group recommends increasing the availability of the renewable energy stock through:

(11a) ensuring that wood waste is classified as a renewable energy input

(11b) amending the expanded RET rules to enable renewable energy certificate creation from the renewable heat component of co-generation circuits

Recommendation 12: The Strategy Group recommends that the Australian Government investigate the implementation of incentives to further encourage domestic recycled paper manufacturing.

Recommendation 13: The Strategy Group recommends that the Australian Government:

(13a) ensure that outstanding reviews of Regional Forest Agreements (RFAs) are completed by mid-2010

(13b) hold immediate discussions with industry and state governments on ways to maintain long-term resource security for the native forest industry, and to explore the possibility of developing a schedule and work plan for rolling the RFAs forward.

Recommendation 14: The Strategy Group recommends that the Australian Government and state and territory governments put in place policies to ensure adequate supplies of affordable gas and gas infrastructure for future industrial and electricity generation needs.

Productivity

Recommendation 15: The Strategy Group recommends that:

(15a) a working group with the Australian Customs and Border Protection Service (perhaps in conjunction with the Trade Remedies Task Force) be established to consider how to streamline the process for making a case that dumping or subsidy is occurring, in order to reduce costs and complexity for the industry

(15b) the Australian Customs and Border Protection provide business with a clear definition of material injury in relation to dumping actions and remedies

(15c) the Productivity Commission's draft recommendation to introduce a 'public interest test' be rejected

(15d) the Productivity Commission's draft recommendation on the continuation of measures be rejected.

Recommendation 16: The Strategy Group recommends that the Australian Government and state and territory governments consider investment and/or regulatory responses to address identified pulp and paper supply-chain impediments, including:

(16a) enabling double-stacked containers on the main north-south rail route

(16b) measures to improve access to intermodal terminals

(16c) the separation of passenger and freight rail lines servicing ports

(16d) the implementation, as soon as possible, of the Council of Australian Governments' decision on national heavy vehicle regulation and consistency in heavy vehicle mass limits across all levels of governments, including local councils.

Recommendation 17: (17a) Noting the significant price increases associated with the exercise of generator market power in the National Electricity Market, the Strategy Group recommends that the Ministerial Council on Energy accelerate efforts to improve competition in the wholesale electricity market, including by increasing penalties and developing rule changes to limit the exercise of generator market power.

(17b) Noting the significant increase in network transmission and distribution costs, the Strategy Group recommends that the Ministerial Council on Energy consider rules and policies to ensure that network investment is prudent, necessary and tightly controlled and that the costs of the investments are transparent, justified and affordable.

(17c) Noting the lack of investment in increasing interconnector capacity, the Strategy Group recommends that the Ministerial Council on Energy consider broadening the rules covering business cases for interconnector investment to recognise the positive impact that such investments have on increasing competition between generators and on electricity spot prices.

Recommendation 18: The Strategy Group recommends that the Australian Government support workforce planning and development initiatives that underpin future economic opportunities for the pulp and paper industry and its workforce. Such initiatives should include those that support new and emerging technologies, products and manufacturing processes, and should be:

- identified in cooperation with industry and the ForestWorks Industry Skills Council
- delivered by established, industry-focused training and education bodies including relevant TAFE colleges, Appita and the Australasian Pulp and Paper Institute in addition to nationally recognised training (to be delivered in the company's facilities).

