

PART C

IMPEDIMENTS TO

IMPROVED COMPETITIVENESS

This part of the report discusses the major impediments identified by participants to improved economic performance by Australia's forest products industries.

For the purposes of this report, the Commission has defined an impediment as a factor affecting efficiency which is directly controllable by governments, other than those factors which relate to the management of the economy generally (eg interest rate policy and other elements of the Government's monetary policy).

The discussion of impediments is divided into three chapters:

- *Chapter 6 explores issues relating to public and private wood supplies.*
- *Chapter 7 focuses on government provided services, namely energy, land transport and port and shipping services.*
- *Chapter 8 discusses a range of other impediments — labour market and training issues, project approval processes, government measures to promote higher levels of paper recycling, and building codes and certain related issues.*

6 WOOD SUPPLIES

The significance of wood costs as a proportion of operating costs varies widely between forest products. For some products — such as green scantling and framing timber — wood is the most significant component of costs. However, for many other products, wood costs are exceeded by expenditure on other inputs. For example, the major component of operating costs in the production of lightweight coated papers, newsprint and particleboard is chemicals, energy and distribution respectively.

Notwithstanding this variation, most producers participating in the inquiry were adamant that the major factor inhibiting the future development of the Australian forest products industries is the lack of security associated with future wood supplies. Indeed, many fear that it will not be possible to sustain even the current levels of activity, let alone justify new investment, without greater resource security. The following comments are representative of the concerns expressed.

The Victorian Government (sub. 25, p. 11) stated:

... new developments dependent on the public forest resource are not likely to proceed without Government commitment to provide long-term assurance of supply. It is considered that industry concerns on this matter have related to uncertainty about Commonwealth actions rather than actions by the Victorian Government.

Briggs and Sons (sub. 7, p. 1), a sawmilling business located in the Dorrigo region of New South Wales, stated:

The company's major barrier to productivity is lack of resource security. We have now halted all new investments and research and development projects until resource security is available to NSW hardwood operations. Lack of resource security is costing the company between \$1 million to \$2 million per annum ...

The Institute of Foresters of Australia (sub. 5, p. 4) commented:

... there has been a period of several years of contradictory and adverse signals sent to forest-based industries and investors. Unfortunately, it has now reached the stage where Australia is regarded in overseas investment circles as an 'unstable' investment environment.

A recurring theme was that, although governments at all levels have contributed to perceptions of poor resource security, actions by the Commonwealth Government have been the major cause of concern. Intervention by the Commonwealth Government in the Wesley Vale pulp project was cited as the major cause of uncertainty, not only in relation to investments in pulp mills, but to new investment in all forest industries. Statements by Commonwealth

Ministers and extended powers recently assumed by the Commonwealth (eg powers provided under the endangered species legislation and the international convention on biodiversity) were also said to reduce resource security and deter new investments. For example, NAFI (transcript, p. 385) stated that:

... we see the Commonwealth role expanding very fast, and no capacity whatsoever exists to have any form of legally backed agreement for wood supplies in relation to the activities of the Commonwealth ... we have been advised by international bankers that, until that position is resolved, they are not prepared to fund forestry industry development in this country.

A number of previous inquiries (eg RAC 1992a and ESD 1991) have identified problems in determining the access of the forest products industries to wood in public native forests. Underlying the problems has been increased community concern about the need to better recognise conservation and environmental values. As a result, governments since the mid-1980s have become less willing to commit themselves to supplying wood on a medium/long-term basis. At the same time, the area of native forests designated as conservation reserves has increased significantly, thus reducing areas in which logging can occur.¹

Previous inquiries have proposed measures intended to improve the objectivity and transparency of land use decisions and to reduce the costs associated with uncertainty surrounding resource security. Some measures have already been adopted. For example, the 1992 National Forest Policy Statement (NFPS), which was agreed to by the Commonwealth, State (except Tasmania) and Territory governments, outlines a broad policy framework for the sustainable management and use of Australia's forests. Most producers consider that the initiatives enunciated in the Statement will improve resource security, although there are concerns that it does not provide sufficient resource security and that the political 'will' required to implement it fully may not exist. For example, NAFI (sub 71, p. 3) stated:

The NFPS's finely balanced provisions, each conditional upon each other, is a recipe for impasse and investment uncertainty.

Similarly, the Victorian Government (sub. 84, p. 1–2) expressed reservations about the uncertainty associated with the implementation of the National Forest Policy Statement:

The Government remains concerned by the uncertainty of the Commonwealth Government's commitment to resource security ... The current lack of end points for Commonwealth requirements is unsatisfactory to the Victorian Government and to investors ...

¹ The area of native forest included in national parks and reserves increased from 4.6 million hectares in 1987 to 6.2 million hectares in 1990 (ABARE 1992b). The total area of native forest in Australia amounts to 41 million hectares.

Because of the work undertaken by previous inquiries, the Commission has not attempted to replicate the analysis of some key land use issues. In particular, it has not attempted to address the criteria by which forest resources should be allocated among competing commercial and non-commercial uses, or to consider how existing institutional arrangements could be modified to reduce fragmentation and conflict within governments and to overcome coordination and duplication problems between governments. In addition, the Commission has not attempted to assess whether the levels and basis of log royalties currently charged by government agencies are 'appropriate'. This latter matter has also been examined by many previous reports (eg IC 1991d and 1992b, RAC 1992a, ABARE 1990, CIE 1990 and Cameron and Penna 1988).

It is important to stress that the decision not to address these matters reflects only a desire to avoid unnecessary duplication. It should not be interpreted to imply that these matters are not important. On the contrary, the Commission supports the views of most producers participating in this inquiry that the early resolution of outstanding land use issues and improvements in the institutional arrangements are crucial to the industries' future development.

To improve resource security, the Commission considers that the Commonwealth, State and Territory Governments should accelerate the implementation of measures required to meet the commitments enunciated in the National Forest Policy Statement. Governments should outline the processes involved and announce a timetable for implementation of the various initiatives.

There are, however, a number of important issues concerning wood supplies which the Commission has explored. These relate to corporatisation and privatisation of publicly owned forest management agencies, compensation issues, private wood supplies and government export controls. However, as an introduction to discussion of these matters, the following section considers sovereign risk — the factor which most participants consider underlies uncertainty about future wood supplies.

6.1 Sovereign risk

The term 'sovereign risk' refers to the risk borne by entrepreneurs that governments will change 'policy' from that which applied at the time investment decisions are made. In recent years, some of the more controversial policy changes have related to resource-based industries, such as the mining and forest products industries. However, sovereign risk is a factor which influences investment decisions in most spheres of economic activity. For example, investors in manufacturing activities have to allow for the possibility

that announced programs of phased tariff reductions will be modified at some later date, while investors in virtually any activity can be affected by changes in taxation policy. Sovereign risk can affect most facets of an enterprise's operations, including the cost and availability of inputs, operational practices, product quality and prices, and market access.

In the context of this inquiry, sovereign risk was mainly raised as a concern in relation to the security of future wood supplies. The key issue is not about the quantities of wood that exist, but its availability to producers of forest products. For example, NAFI (sub. 24, p. 3) stated:

Contrary to popular opinion, there is no shortage of sustainable volumes of industrial wood supply ... Instead, access to this wood is constrained by political decisions, lack of infrastructure and unfavourable prices.

Even where long-term contracts exist with state government instrumentalities, producers fear that intervention by the Commonwealth Government could mean that such contracts cannot be honoured. This concern is greatest for wood requirements that are sourced from public native forests. However, in some quarters, fears are harboured that environmental concerns could lead to the introduction of regulations (Commonwealth, State or local government) which inhibit logging, not only in public forests and plantations, but also in privately owned forests and plantations, including those specifically acquired for logging purposes. (Such developments have occurred in some other countries — see Chapter 2.) One firm — APPM — also expressed concern that the Commonwealth could intervene to prevent the clearing of native vegetation to establish tree farms. The unpredictability of government administered log prices was also seen as another, albeit relatively minor, source of sovereign risk.

In many other industries, the risk of a major supplier failing to fulfil a contractual obligation may not have major consequences. It will frequently be possible to procure supply from another domestic producer or from importers. Alternatively, it may be possible to use a substitute product.

While there may be some scope for sourcing wood from elsewhere or, in some instances, substituting wastepaper for virgin pulp, these possibilities are limited for the forest products industries. In many regions, state government forestry services are the sole available source of wood supplies. Indeed, in terms of native hardwood — around which most concern centres — supply throughout Australia is largely in the hands of state government instrumentalities. The scope for using a substitute for wood is limited to certain papers, and by the availability of suitable wastepaper and transport costs. It can also require significant additional investment.

Given these circumstances, it is understandable that wood processors wish to have some guarantee of future wood supplies. At present, many have medium-to-long term contractual arrangements with state government agencies. For example, the implementation of the 1987 Timber Strategy has resulted in the allocation of 15 years sawlog licences in Victoria. Similarly, in Western Australia, legally enforceable contracts of up to 15 years duration exist. Legislated agreements under the State Agreements Act have also been used to provide resource security in Western Australia. In contrast to these arrangements, licences issued by the New South Wales Forestry Commission are generally of a much shorter duration, with entitlements being determined annually.

Despite the availability of medium-to-long term arrangements in a number of states, participants generally consider that such arrangements do not provide them with long term security, primarily because they do not preclude Commonwealth Government intervention.

Few examples of Commonwealth Government interventions and policy reversals were provided to support concerns expressed about the high level of sovereign risk associated with investment in the forest products industries. The extent of government involvement in the supply of the industries' key input, and the limited substitution opportunities, may mean that sovereign risk is higher for the forest products industries than it is for many other industries. Nonetheless, it is possible that the magnitude of the risk is overstated. However, the basis of producers' assessment is essentially a second order issue. The key issue for new investment decisions is producers' *perception* of sovereign risk. In this regard, it is abundantly clear that a wide range of producers in the forest products industries (and their financiers) consider that sovereign risk *is* high, and that this factor is inhibiting new investment. In these circumstances, there is a probability that investment opportunities will be lost, not only to the forest industries but, if investors judge sovereign risk to be lower in other countries, to Australia as a whole. As noted by Bunnings, it also tends to bias investment decisions in favour of projects with shorter payback periods.

At the same time, it is important to recognise that sovereign risk is not the only factor which inhibits new investment in forestry projects. All factors which adversely affect projected rates of return act as disincentives to new investment. For example, quantitative analysis undertaken by the Commission suggests that, even with some relatively conservative assumptions about the extent of new capacity, lower processing costs, as well as improved resource security, would be required to justify the new investment (see Appendix G).

Changes put in place by governments in recent years will reduce the exposure of the forest products industries to sovereign risk. As noted above, many of

these matters have been explored in some depth in other reports (eg means of improving institutional frameworks and government decision-making processes), and the Commission does not propose to duplicate this work. However, there are some measures relating to wood supplied by government instrumentalities which would improve efficiency, and which may also have implications for resource security, which the Commission wishes to elaborate on. These concern:

- corporatisation of public forestry bodies;
- privatisation of public forestry bodies; and
- compensation for government actions which lead to the withdrawal of log supplies.

These matters are discussed in turn below. Issues specific to private wood supplies and government export controls are discussed in subsequent sections of this chapter.

6.2 Improving the efficiency of Australia's forestry agencies

Over the last few years, there has been significant criticism of a wide range of government agencies engaged in supplying goods and services to industry (eg public electricity, water and postal authorities). Reviews have concluded that, in many cases, services have not been delivered at least cost, and that pricing practices have been inappropriate. These findings have largely been attributed to limited incentives to improve efficiency and unclear, and often conflicting, objectives that many government business enterprises have been required to fulfil.

Past studies and comments made by organisations participating in this inquiry suggest that there is also considerable scope for improving efficiency in government forest management agencies. Forestry bodies have traditionally had to perform a range of commercial and non-commercial functions (eg wood production as well as the management of flora and fauna habitats, water catchment areas and recreational reserves), and have also been subject to on-going political pressures. These factors contributed to the development of a wide range of inefficient practices. For example, a 1990 report into the operations of the New South Wales Forestry Commission (Public Accounts Committee 1990) found that it lacked focus, had serious deficiencies in its management structure and had not developed adequate public consultation procedures with relevant community interest groups.

Log allocation policies employed by government agencies can be used to illustrate the inefficiencies which have existed.

Prior to the mid-1980s, the principles underlying the determination of log allocations had little in common with commercial realities. The policies were not clearly defined, and state forestry bodies were able to exercise considerable discretion. For example, forestry agencies could sell wood to whomever they saw fit. Where wood was sold by tender, forestry agencies could prohibit potential bidders from participating if they had breached conditions of earlier agreements. Similarly, allocations to mills which were not deemed to have performed “satisfactorily” could be reduced. In some cases, log allocation was contingent on licensees meeting prescribed conditions. For example, WA Chip and Pulp was required by the Western Australian Government to transport all of its woodchip requirements from its chipping mill to its stockpile areas by Westrail. In recent years, log allocation guidelines have been developed in a number of states, although there is still criticism that the administrative processes are not sufficiently transparent and allocations are not determined on an appropriate commercial basis (eg in some states, forestry agencies will not supply logs to interstate processors).

Corporatisation of forestry bodies

One way of improving performance and of placing government bodies on a more commercial footing involves corporatisation.

Corporatisation refers to administrative changes made to publicly owned bodies with the object of increasing efficiency. It seeks to improve performance by compensating for shortcomings in the incentives faced by government executives to manage efficiently. Government managers, for example, seldom face the risk of takeover or insolvency and, if performance is poor, are less likely to lose their job than are private sector managers. Corporatisation attempts to address these weaknesses by introducing administrative mechanisms which are intended to replicate many of the incentives for efficient management which apply to privately owned businesses.

Broadly speaking, corporatisation can be considered as having two major strands. One involves changes to provide managers of government enterprises with greater managerial autonomy in exchange for higher levels of accountability (eg increased freedom to determine pricing and investment decisions in return for accepting responsibility for meeting prescribed performance targets). The other strand consists of initiatives to establish a more neutral market environment between government and private enterprises (eg requirements that public bodies be liable for the same government taxes and

charges as their private sector counterparts). Underpinning all initiatives is the establishment of clear and non-conflicting objectives that relate to commercial performance only. This requires that any non-commercial activity be separately identified and costed, and be funded by a direct government appropriation from the budget.²

In the Commission's view, corporatisation of government forest management bodies would increase the incentive for the efficient management of Australia's forest resources. Indeed, most governments have implemented, or are in the process of implementing, measures to corporatise, or partly corporatise, their forestry instrumentalities. For example, corporatisation of all or part of the activities of forestry agencies is currently under way in Victoria, Tasmania, Queensland, South Australia and New South Wales. However, the nature, extent and pace of reform varies considerably between states, and some have yet to make a commitment as to how far they will follow the corporatisation path.

In the Commission's view, efficiency and resource security will be enhanced if all governments pursue corporatisation programs for forestry agencies to the fullest extent possible. This would involve implementing corporatisation packages in full, rather than selectively introducing only some of the measures.

The initiatives which comprise the corporatisation package advocated by the Commission are set out in Box 6.1. The individual components have been discussed in some detail in previous Commission reports (eg IC 1991b and 1991c). However, in the context of the forest products industries, some issues require further elaboration. These concern: the activities which could be encompassed by corporatised forestry entities; the treatment of non-commercial requirements (ie community service obligations (CSOs)); and the basis for determining the appropriate rate of return for corporatised forestry agencies. These matters are discussed below.

² For a more detailed discussion of corporatisation see IC (1991b, 1992a).

Box 6.1: Components of a corporatisation package

To place public enterprises on a commercial footing, governments should:

- provide clear and non-conflicting objectives that relate to commercial performance only;
- identify, cost and directly fund any community services from the budget so as to make subsidies transparent;
- vest management in a commercial board accountable to Parliament through a minister;
- introduce performance monitoring based on financial and non-financial targets, and establish a system of rewards and penalties for managers related to performance;
- separate out regulatory functions — enterprises should not be both an umpire and a player;
- make authorities liable for all taxes and government charges;
- require dividends at levels equivalent to similar private companies;
- remove constraints such as government employment policies and advantages such as those associated with government borrowing guarantees;
- require adoption of uniform and commercial accounting practices;
- make corporatised authorities subject to the Corporations law;
- introduce effective natural monopoly regulation and remove advantages, such as exemptions from the Trade Practices Act, that do not apply to private companies; and
- remove regulatory and legislative barriers to entry.

Activities to be corporatised and CSOs

Government forest management agencies are generally charged with the management of forest areas that have been set aside as conservation reserves (eg nature and recreation reserves), multiple use forests (eg forests which are managed for wood production, water catchment and recreation purposes), other crown land and state owned plantations. Of these, plantations are sometimes seen as commercial ventures while, at the other extreme, conservation resources are generally managed in the interests of the community as a whole on a non-commercial basis.

Given this diversity of functions, there are a number of corporatisation options. These included corporatising: all areas managed by government forestry agencies; all areas in which some degree of commercial activity takes place; or corporatising only these areas dedicated to wood production (eg plantations). While attractive in terms of having to deal only with commercial activities, creating a corporatised public entity to manage only public plantations would result in the bulk of the commercial activity (ie wood supply) still being produced by entities operating largely on a non-commercial basis. On the other

hand, corporatising all areas of forest management may unduly complicate the separation and funding of commercial and non-commercial activities.

The Commission favours corporatising all areas which are managed, solely or in part, for wood production. Conservation reserves and other areas of state owned land used solely for non-commercial functions would continue to be managed by separate government funded bodies. However, because of the extensive community resources which they would control, such bodies should be required to report regularly on the estimated value of the assets which they manage. Under this option, corporatised bodies would not be responsible for regulatory functions.

Multiple use native forests and plantations could be controlled by a single corporatised entity. However, rather than create a single corporate body in each state, it would be better to create two separate bodies — one to manage plantations and another to manage areas of native forest used for wood production. Another alternative would be to form regional timber corporations which would sell wood from all public resources within a region.

Some participants at the draft report hearings were concerned that the adoption of this proposal could lead to responsibility for public wood being fragmented between numerous public bodies in each state. However, if this option were pursued, the Commission considers that practical considerations would limit the number of agencies to two, or perhaps three, per state.

It is possible that the establishment of more than one agency in a state would increase overhead costs. However, even if some overhead costs were to increase, such costs would need to be compared with the benefits that could arise. In particular, the arrangements may permit some degree of competition to develop within the government sector, as well as between public and private wood suppliers. This would create additional pressure to function efficiently. Having more than one public corporation within a state would also provide an opportunity, for performance monitoring purposes, to draw on key operating and financial data for each to help assess comparative performance (so-called 'yardstick' competition). Victoria has already announced that its plantations and its commercial timber operations in native forests will be managed by separate entities.

Another concern that surfaced at the draft report hearings was that non-wood outputs associated with multiple use native forests (eg the maintenance of recreational areas, watershed values, historical and scenic sites) would be put at risk if such forests were managed by corporatised bodies which are required to meet commercial objectives. The Commission considers that this would not occur for a number of reasons.

- governments could specify (and separately fund) non-commercial functions that they require their corporatised bodies to perform (see discussion below);
- corporatised bodies would be subject to forestry codes to ensure that wood is harvested on a sustainable yield basis, wildlife corridors are preserved, and that environmentally sound forestry practices are employed; and
- corporatised bodies would have an incentive to adopt good management practices and develop their forest resources in order to protect their longer term commercial interests.

It also needs to be recognised that, under the Commission's proposal, corporatised bodies would not be responsible for the management of conservation and nature reserves, and of other forest areas in which logging is banned (eg certain water catchment areas).

As noted above, the creation of corporate entities based upon areas used for timber production would still entail costing and funding a number of CSOs in multiple use forests — such as the provision of picnic areas and camping grounds, and the maintenance of access roads. In the case of plantations, the extent of CSOs would be less and, in many cases, there may be none.

In practice, it is difficult to determine how much a corporatised forestry body should be reimbursed for performing CSOs. This is mainly because there are difficulties in separating costs associated with wood production from costs associated with performing CSOs. For example, difficulties exist in apportioning the cost of fire protection and road maintenance between wood production and non-wood forest uses.

Present practices are, in part, a reflection of this difficulty. For example, while corporatisation of forest agencies in Victoria is, in many respects, well advanced, some joint costs are not currently allocated.

In some instances all of the costs of activities necessary to produce commercial reserves have been treated as 'commercial' regardless of whether the primary objective of the activity was 'commercial', or non-commercial or 'shared'. This is likely to have resulted in significant overstatement of commercial costs for some native forest areas ... (DCE, 1992).

Similarly, the Western Australian Department of Conservation and Land Management (CALM) acknowledges that, at the present time, some costs which should be allocated to non-commercial activities (eg some road maintenance costs) are currently borne by wood users.

The Commission recognises that it is difficult to apportion joint costs and that, in some cases, the allocation may necessarily be somewhat subjective. Nonetheless, it is important that all CSOs be fully funded by government rather

than be met, wholly or in part, by contributions from wood-using industries. This requires that all costs be allocated. To increase transparency, the basis of allocation should be described fully in published financial statements. A necessary pre-requisite is that financial accounts be operated on an accrual basis, and not on a cash basis as is current practice in some states (eg Queensland and Western Australia).

Government requirements that forests be managed on a multiple use basis imply that the value of the amenities is greater than would be the case if such forests were managed as dedicated wood zones.³ Consequently, in some circumstances (eg when governments intervene to prevent logging of certain areas within a multiple use forest), it may be more appropriate to assess CSO payments on the basis of 'opportunity costs'. This would involve basing payments on the returns forgone by corporatised forestry agencies because of the government directive.

Rate of return requirements

In principle, corporatised entities should be required to meet a rate of return on assets employed and make dividend payments to their shareholders (ie governments). The rate of return target should be based on that which a private investor would seek, taking into account the relevant risks.

In practice, there are difficulties in establishing the basis and level of the appropriate rate of return target. However, some governments (eg the Victorian Government) already require that a rate of return target be met on native forest wood production.

Just as private companies' profitability varies from year to year, it would be appropriate to also expect some variation in the return achieved by corporatised agencies. Consequently, a rate of return target should be viewed as a medium term goal (ie as a return to be met, on average, over 5 years or so). Framing the requirement in this manner would allow forestry corporations some flexibility in adjusting output rates and log prices in response to changes in market conditions.

Exposure to Trade Practices Act and Prices Surveillance Act

NAFI stated that there have been instances where supply by forestry agencies has been conditional on little or no wood being acquired from other sellers. It also stated that the Victorian Government has refused to allow pulplogs to be transported to New South Wales for processing. Indeed, the Commission understands that it has been commonplace for state forestry agencies (eg the

³ Wood and non-commercial activities are not always competing uses. For example, in some situations, logging can enhance both the aesthetics and the wildlife of native forests.

Queensland Forestry Service) to ‘require’ processing of all logs they sell within their own state (eg by not granting logging licences to mills located in adjacent states).⁴

Corporatised forest management agencies should not be obliged, nor able, to discriminate between wood processors on the basis of location, to make sales conditional on wood not being acquired from other sellers, or to engage in other discriminatory practices.

Most publicly owned bodies are exempt from the provisions of the Trade Practices Act (TPA) and the Prices Surveillance Act (PSA). However, since corporatised bodies are expected to operate in a commercial environment and to be subject to similar disciplines and incentives to those faced by private enterprises, they should also be subject to the provisions of the TPA and PSA.

The market power available to public forestry bodies as the major or, in many cases, the sole forest grower in a region provides an additional reason for making corporatised agencies subject to the TPA and the PSA. In the absence of some safeguard against the misuse of market power, corporatised agencies could be tempted to meet their rate of return target merely by increasing log prices (rather than also focussing on reducing costs), or by engaging in discriminatory practices.

A recent report commissioned by the Commonwealth Government (Hilmer 1993) proposed that “government owned businesses” no longer be exempt from the provisions of the TPA.

Advantages from corporatisation

The specification of clear commercial objectives, improved performance monitoring, the need to meet a rate of return target and the greater transparency inherent in the corporatisation process would provide significantly increased incentives for forests to be managed efficiently so as to maximise the return to the community. Corporatisation would also force forestry bodies to be more accountable for their performance and expose their activities more fully to public scrutiny.

The Queensland Government (sub. 83, p. 9), which plans to corporatise its commercial forestry operations by the end of 1995, stated that the primary benefits from corporatisation are likely to be:

- increased allocative efficiency as a result of more economically efficient pricing of outputs

⁴ The Queensland Government is presently considering a proposal to remove all trading restrictions on Crown native forest sawlog and pole sales.

- longer term performance efficiency gains ...
- transparency in the costs of providing community service obligations (CSOs)
- increased service quality as a result of performance monitoring of CSOs and core activities.

Judging by its impact on other government instrumentalities, corporatisation could result in cost savings through more efficient use of staff and through greater utilisation of contract labour to perform some functions traditionally undertaken in-house (eg road maintenance). Whether or not this results in consequent reductions in log prices would depend on the manner in which log prices are determined and on the magnitude of cost reductions compared with the impact of factors which would increase costs (eg requirements to pay all relevant government taxes and charges).

A greater commercial focus would make public wood suppliers more conscious of users' needs and of the implications of pursuing alternative marketing strategies. This could result in some forests no longer being managed primarily for sawlog production, but being managed primarily for pulp logs on shorter rotations. In some instances, the greater emphasis on commercial objectives could result in some areas no longer being used for timber production, or in some plantations not being replanted. This may be particularly so in the case of plantations because, as stated by ABARE (1990, p. 30):

... the establishment of some plantations has been influenced more by the availability of financial assistance and suitable land than by evaluation of costs and benefits.

Improved performance by forestry agencies would benefit all downstream users. While there is no information to reliably quantify the extent of the potential benefits, the effects of some assumed improvements are illustrated in Appendix G.

From the industries' perspective, the increased autonomy provided to government agencies by corporatisation should engender greater confidence that wood allocations will be less subject to political interference for non-commercial ends (eg allocations will be less influenced by regional employment considerations). From the perspective of forestry corporations, greater recognition of the mutual dependency existing between wood suppliers and using industries may increase the incentive to enter into long-term supply agreements in order to secure a guaranteed market for at least part of their future wood production. This is currently the situation in a number of other industries in which both processors and producers require security of supply (eg many fruit and vegetable industries, and most mining industries).

Increased customer orientation should also lead to greater consideration of the manner in which timber is produced from public forests. This would, for

example, involve considering the possibility of relocating wood harvesting zones to reduce distances to processing centres.

To the extent that corporatisation would remove some of the financial advantages presently enjoyed by public forestry bodies (eg limited liability to pay taxes and to pay annual dividends to governments), it would encourage the development of (or eliminate a major deterrent to) private plantations and agroforestry. This would increase the scope for the forest industries to diversify their sources of wood supply. To the extent that diversification occurs, government forestry corporations would be exposed to a degree of competition.

The transparency and basis for establishing log prices and log allocations should be improved by corporatisation. In this inquiry, many participants criticised what they perceive as ad hoc arrangements for determining log allocations, and the resultant rapid and unpredictable increases in log prices that has occurred in recent years in some states. Producers indicated that the basis for establishing log prices needs to be more transparent to enable producers to estimate future outlays with greater certainty. Producers were also critical of initiatives in some states to use log prices and allocation methods as a means of promoting higher value added activities. (This issue is discussed in Chapter 10.)

Corporatisation should encourage greater use of market-based mechanisms rather than rigid administrative procedures as a means of determining log allocations and prices. In the past, administratively determined allocations have often encompassed fixed annual supply levels and penalty charges linked to 'take-or-pay' provisions. Log prices have frequently been based on formulae which rely on historical cost factors, and which incorporate no provision for adjustment over time or for changes in product markets.

A more commercial approach would entail consideration of all supply and demand factors for both the resource itself and user industries. It would involve greater resort to pricing logs according to their residual value and, provided there are a number of potential buyers, selling a higher proportion of logs by competitive tender.⁵ In the interim, permitting licences to be both divisible and tradeable would complement a more market-based approach to log pricing by providing greater scope for existing producers to expand (or contract) operations and for new entrants to commence operations in response to changing market circumstances. If this flexibility is not available, the scope for

⁵ Some states currently sell a proportion of logs harvested by tender. For example, Tasmania tendered around 60 000 cubic metres of eucalypt sawlogs in 1992. The November tender involved 38 500 cubic metres offered in 77 parcels, each of 500 cubic metres per year. The Queensland Government stated that more than 60 per cent of its Crown timber is currently sold under competitive tendering systems. It intends to extend competitive tendering to cover all major Crown wood sales.

rationalisation is reduced, as are the opportunities for improving competitiveness.

Licences and associated log entitlements issued by state and territory government forestry agencies should be both divisible and tradeable.

The adoption of a more commercial approach to log pricing by forestry agencies would reduce the incidence of logs being inappropriately priced. It would also help ensure that forest resources are allocated to their most efficient use. For example, if market-based pricing mechanisms do not generate sufficient revenue to enable forestry corporations to earn an appropriate rate of return on their assets, this could indicate a need to reduce logging activities. Conversely, the achievement of relatively high returns could signal a need to consider expanding commercial wood activities.

As stated above, the Commission has not attempted to estimate whether current log prices are efficiently based — this issue has been canvassed by numerous previous inquiries. One of the more recent studies — the RAC inquiry — found that, in the past, both sawlogs and pulplogs had been underpriced. However, the RAC (1992a, p. 289) concluded that, following price increases:

... significant real sawlog and pulplog price increases are unlikely to be necessary to bring log prices into line with any [efficient] price benchmark.

In contrast to this finding, a recent report into the operations of the Victorian Department of Conservation and Natural Resources (Victorian Auditor General's Office 1993, p. 137) pointed to significant underpricing of logs from native forests:

Based on the 1990-91 results, audit observed that if the loss on the sale of hardwood was to be eliminated solely through an adjustment in royalties, a 55 per cent increase would have been required. An even greater increase would be required if the target return of 4 per cent was to be achieved. Softwood royalties would need to have increased by 73 per cent in order to generate the required target rate of return.

To the extent that logs are not appropriately priced, forest resources will not be used efficiently. If logs are under-priced, user industries are subsidised and there is an incentive for harvesting rates to be higher than those required to optimise the return the community receives from its forest resources. Conversely, over-pricing of logs will result in under-utilisation of forest resources and user industries effectively being taxed.

As noted in the previous chapter, many producers participating in this current inquiry claim that log prices are now too high, and well above those paid by overseas competitors. This could suggest that Australian forestry agencies' costs and/or prices are excessive. Alternatively, it could reflect different cost structures (eg lower labour costs) or government assistance provided in other

countries. To the extent that it is attributable to different cost structures or government assistance, the scope for reducing the difference between Australian and overseas prices is limited. Greater scope exists for reducing log prices which are inflated by excessive costs or inefficient pricing practices. This section has considered one option for achieving this — corporatising forestry bodies. Another option — privatisation — is discussed in the following section.

Privatisation of plantations

Corporatisation will increase the exposure of public forestry bodies to commercial pressures. However, certain market disciplines which apply to large private enterprises — such as the threat of takeover and daily monitoring associated with listing on sharemarkets — do not apply to government bodies, irrespective of whether or not they are corporatised. In addition, even with a corporatised body, there is a danger that governments will interfere in operating decisions to the detriment of commercial performance. In these circumstances, there is a case for privatising publicly owned forestry agencies to increase the incentive for efficient management and to reduce the scope for government intervention.

There are two major concerns about privatising forestry resources:

- Privatisation would create regional monopolies which would have to be scrutinised closely by governments in order to ensure that they do not misuse market power. The cost of such scrutiny could outweigh the potential benefits associated with the transfer of ownership.
- Private organisations acquiring native forests would be able to appropriate some of the benefits that accrue to non-wood users (eg by selling camping permits and charging entrance fees), but they would not be able to appropriate all of the benefits (eg the benefits, in terms of aesthetic values, experienced by passing motorists). Thus, it is argued that non-wood values of forests will be underestimated and private forest owners will have an incentive to engage in higher than (socially) optimal levels of timber harvesting.

The latter concerns suggest that the potential for privatisation may be higher for state owned plantations than for native forests. Indeed, the large and increasing incidence of private plantation ownership in Australia over the last few decades (about 30 per cent are privately owned) suggests that most benefits from plantations can be internalised. In these circumstances, it is difficult to identify an ongoing role for governments in plantation development and management.

In New Zealand, timber rights for public plantations were privatised in 1990, while the management of timber production in government forests was placed

in the hands of a corporatised government agency. The Victorian Government is considering a similar option. The Victorian Department of Conservation and Natural Resources (sub. 25, p. 2) stated:

The Government ... [aims to] largely withdraw from further expansion of public softwood plantations. The Government is to establish a plantations corporation to undertake the management of public softwood plantations and look at their possible sale.

Concerns about creating private monopoly suppliers could be overcome by subdividing plantations prior to sale. For example, as there are limited economies of scale in plantation forestry, it would be possible for many existing government plantations to be divided into a number of saleable lots. Provided there is a limit on the area which could be acquired by any single person, this could create an element of competition. The creation of a number of 'tree farms' in a region, along with disciplines provided under the TPA and PSA, would reduce the likelihood that the new owners would have opportunities to misuse market power.

In responding to the draft report, CALM (sub. 76, p. 5) opposed privatisation, in part, because plantations could be acquired by overseas buyers "whose main interest may be gaining access to a resource for export".

The Commission sees no justification in deferring privatisation on these grounds. It considers that plantation logs should be treated similarly to all other goods and services: they should be freely tradeable and not reserved for domestic processors. Indeed, to preclude overseas interests bidding for public plantations would deny the community some of the benefits associated with privatisation. The nature of these benefits is illustrated in the following comments made by the New Zealand Ministry of Forests (sub. 81, p. 2):

In the sales process, the Government also realised the importance of allowing foreign companies, as well as local ones, to bid for such assets (public pine plantations), in order to maximise the revenue received from such sales. A variety of other benefits have been realised, namely: increased market access, new capital, new technology and new management techniques.

Because of the large area of plantation involved, sales may need to be staggered over a number of years in order to maximise the returns to governments. In some instances (eg where a processor has contracted by buy all available wood for a specified period of time), sales of some plantations may have to be deferred for some years.

One concern of state governments with privatisation has been the possible diversion of revenue from states to the Commonwealth Government. This issue was addressed at the 1990 Special Premiers' Conference. In their communique, the leaders "recognised that the potential loss to State Governments of tax-

equivalent streams of income as a result of the change in ownership of enterprises could be an impediment to microeconomic reform and welcomed the Commonwealth's policy of in-principle commitment to compensation". Subsequently, compensation has been offered by the Commonwealth (in the form of retirement of state debt) for the privatisation of some state government businesses (eg the New South Wales Government Insurance Office). However, at the June Council of Australian Governments, the Commonwealth announced that it would only provide compensation on a case-by-case basis. The change was based on a study by the Commonwealth Treasury which suggests that, under certain conditions, privatisation of some public enterprises will not affect the net budgetary position of a State.

The Commission believes that privatisation of public plantations would improve efficiency. Privatisation could encompass the sale of both land and trees or, alternatively, could involve the sale of the trees only, with the land being leased to the new owner(s) for a specified period of time.⁶ In all instances, provision would need to be made for honouring long term contractual obligations that may exist between government agencies and wood users, and for ensuring that opportunities do not arise for the misuse of market power.

6.3 Compensation payments by government

Producers of forest products argue that, in order to obtain the security required to support large scale investment, it is imperative that log supplies are secured by legally enforceable contracts which encompass compensation provisions if government action results in contracts being breached. At present, some contracts between producers and state forestry agencies include provisions for compensation if actions by state governments prevent forestry agencies from meeting their contractual obligations. However, most do not provide compensation if the failure of forestry agencies to meet their log contracts is a direct consequence of Commonwealth Government action.

The RAC (1992a, p. 299) concluded that the Commonwealth should consider paying financial compensation where:

... a land use change resulting from a Commonwealth policy or decision causes disruption to industries reliant on the forest resource.

⁶ In the case of New Zealand, the Government sold the cutting and managerial rights, but not the land. The New Zealand Ministry of Forestry stated that, by the end of 1992, two-thirds of its forest estate had been sold for \$NZ 1.4 billion.

It stated that compensation should be conditional on industry paying governments for the full value of wood harvesting rights and paying for the costs of wood production in native forests.

The NFPS recognises the need for governments to facilitate resource security by establishing clear and consistent policies, and improving co-ordination between governments. It also foreshadows a range of procedures which are to be put in place to help achieve these objectives. These include the negotiation of Commonwealth-State regional agreements and co-ordinated Commonwealth-State project assessment processes for projects in which the Commonwealth has a statutory obligation. The Commonwealth has also stated that it will maintain its policy of providing assistance to facilitate structural adjustment that may arise as a result of Commonwealth actions which change land use. Commonwealth financial assistance was, for example, provided following the withdrawal of logging rights on Fraser Island.

Forest products producers generally agree that recent initiatives have provided improved resource security. For example, according to NAFI (1993, p. 1), the new National Forest Policy was “cautiously welcomed by the industry”, although there are concerns that commitments will not be carried out and that some of the new administrative procedures will “lead to further delays in forest industry development”. However, many in the industries consider they are still too vulnerable to government action — Commonwealth Government intervention in particular — that could result in the withdrawal of wood resources without any compensation.

The Commission accepts the industries’ need for a reasonable degree of resource security. However, it is widely recognised that the Commonwealth Government has certain responsibilities and powers over the use of public native forests. Consequently, unless there has been appropriate consultation with the Commonwealth Government prior to state governments entering into long term wood agreements with wood processing industries, it is difficult to argue that the Commonwealth should *automatically* provide compensation if its actions subsequently result in state governments being unable to fulfil agreed log quotas. It is probable that, in some instances, the likelihood of government intervention is factored into log supply agreements in the form of lower log prices.

The case for providing compensation for government action that prevents logging on private land is different. Where trees have been grown for commercial use, they are little different from other agricultural crops. Any actions by government that change the purpose for which land can be used and prevent trees from being harvested, should result in the payment of appropriate financial compensation.

It is difficult to argue that forest product producers should automatically be compensated if long-term agreements with state governments for the supply of logs from public native forests are changed. While it may be appropriate to provide financial compensation, the Commission considers that it should be determined on a case-by-case basis having regard to all relevant circumstances. On the other hand, compensation should be provided if land use changes by government prevent the harvesting of trees grown commercially on private land.

6.4 Private wood supplies

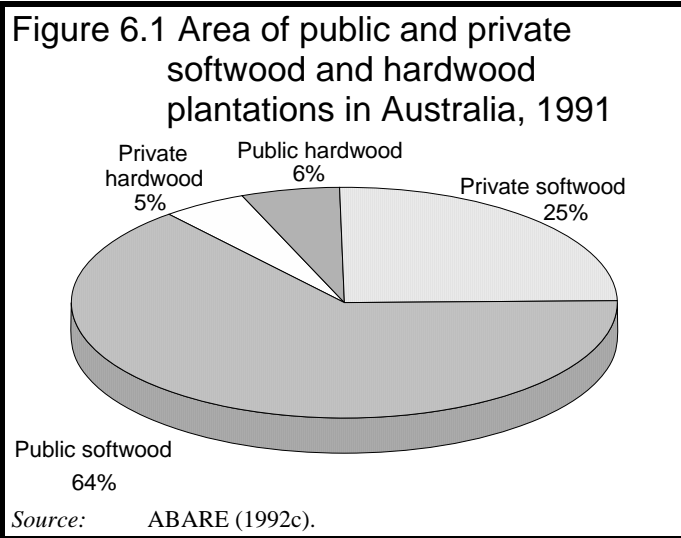
The first part of this chapter has concentrated on forests which are publicly owned — predominantly native hardwood forests, but also some softwood plantations. The following sections consider aspects of privately grown forests and plantations which collectively comprise over a quarter of Australia's forested land. While private native hardwood and softwood forests are mainly owned and managed by farmers, some two-thirds of private plantations are owned by vertically integrated forest companies.

The emphasis in this part of the chapter is on private plantation wood, although the development of agroforestry on private farmland, often referred to as integrated tree cropping, is also considered. The discussion commences with an outline of the increasing significance of plantations. Subsequent parts discuss various advantages associated with plantations and factors which impede their efficient development.

The plantation estate

Plantations are defined as intensively managed stands of trees of either native or exotic species, established by the regular placement of seedlings or seed. The distinction between plantations and native forests is somewhat blurred in instances where native forests include replanted or regenerated areas.

The share of total Australian wood fibre which is grown in plantations is increasing. Australia now has a plantation estate of just over one million hectares, of which about 30 per cent is privately owned. This compares with just under 41 million hectares of native forest, approximately 27 per cent of which is privately owned.⁷ Figure 6.1 shows that almost 90 per cent of the



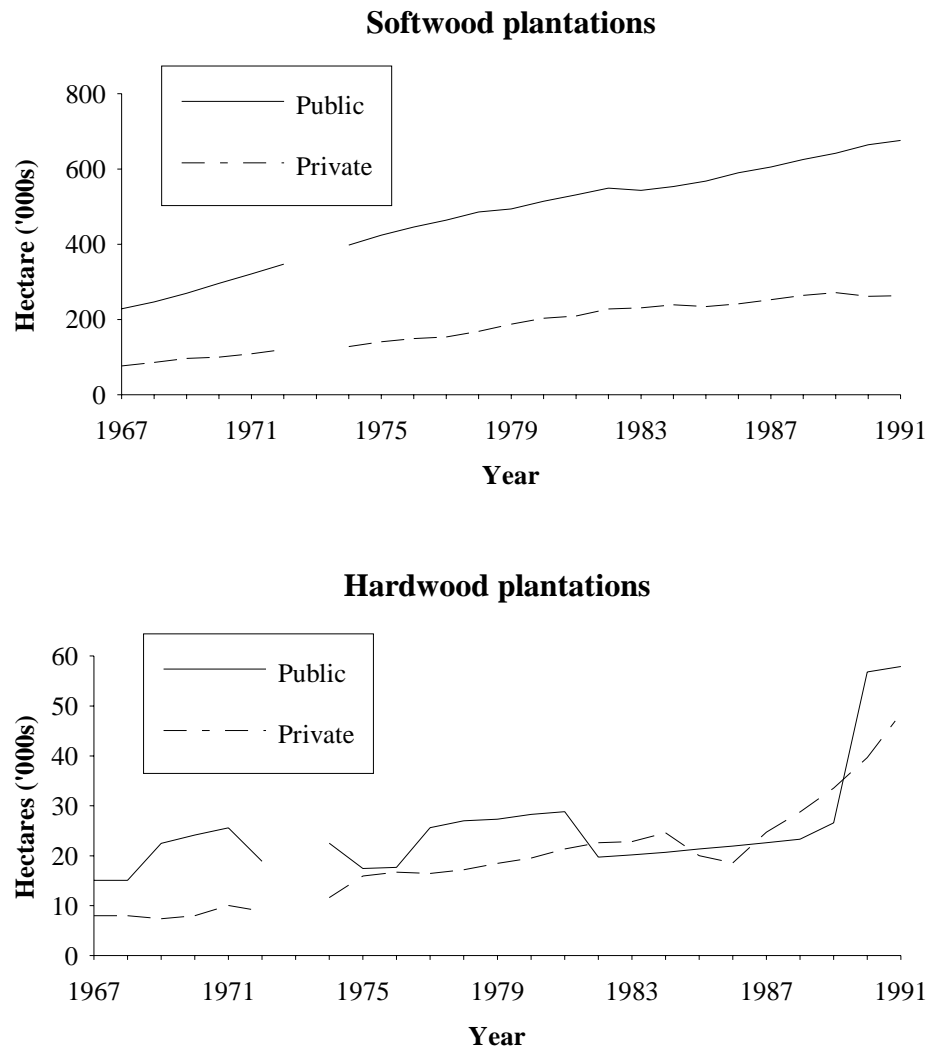
plantation estate comprises softwood, primarily *Pinus radiata*, with about one-third being privately owned and managed. The plantation estate comprising hardwood species, generally eucalypts, is almost equally divided between private and public ownership and management.

More than one-third of Australia's private plantations is located in Victoria, where the private plantation estate is almost as large as public plantations. Tasmania has more private than public plantation estate, the Northern Territory has only private plantations, but all other states are dominated by public plantations. Large state government plantation holdings are, in part, due to financial assistance (in the form of long-term low-interest loans) provided by the Commonwealth to states under the Softwood Forestry Agreements of the 1960s and 1970s.

Because of abundant hardwood supplies and ongoing regeneration in native forests, for decades there was relatively little interest in establishing private eucalypt plantations. However, privately owned hardwood plantation establishment rates increased significantly during the late 1980s (see Figure 6.2), mainly in response to increasing demands for hardwood pulpwood and because of growing concern that access to public forests would be restricted.

⁷ Further information about Australia's forest resources is detailed in Appendix F.

Figure 6.2 Growth in area of public and private softwood and hardwood plantations in Australia, 1967 to 1991



Source: ABARE (1992b).

Although comprising only about 2 per cent of the area of native forests, public and private plantations supply around 45 per cent of the wood requirements for the sawmilling sector, 90 per cent of the needs of the wood-based panel sector, and about 65 per cent of the fibre used by the pulp and paper sector.

Given the youth of much of the estate, coniferous sawlog availability is not expected to stabilise until at least the year 2030. At that time it is expected that

the availability of softwood sawlogs will be more than double current annual yields.

It is difficult to determine the extent of future expansion. The availability of suitable land does not appear to be a constraint. The National Plantations Advisory Committee (NPAC 1991) indicated that about 1 million hectares of marginal agricultural land is suitable for plantation establishment. Similarly, the RAC identified about 460 000 hectares of suitable land within a 200 kilometre radius of existing processing facilities.

It is estimated that, in Western Australia, which has already established about 18 000 hectares of eucalypt plantations, another 200 000 hectares of tree plantations (equivalent to about 20 per cent of the existing national plantation estate) could be established in the south-west within fifteen years. Plans to establish a further 30 000 hectares of plantations on private land were announced in late 1992 (see Box 6.2). Given the extensive plantation holdings of governments, and current plans to sell some public plantations to private interests, it is probable that expansion of the national plantation estate will increasingly be undertaken by the private sector.

Box 6.2 Plantation sharefarming

In December 1992, the Western Australian Department of Conservation and Land Management (CALM) concluded two agreements with Japanese and Korean investors to establish 30 000 hectares of eucalypt plantations in the south-west of Western Australia over the next decade. The plantations will eventually be harvested for export woodchips. The agreement does not entail the purchase of land. Plantations will be established on a sharefarming basis with participating farmers being paid a percentage of the profits. CALM will supervise the forming of partnerships between farmers and the investors.

Advantages of private plantations

Conservation groups favour plantation development because they believe it will allow a reduction in logging of native forests. This contrasts with the sawmilling industry which regards plantations not as a substitute for wood from native forests, but as a complement. For instance, the NSW Forest Products Association (transcript, p. 194) stated:

The association's policy is that hardwood plantations in the medium to long term will only ever be a practical supplement to access to the native forests.

Nonetheless, wood processing industries see plantations as offering a way of avoiding (or lessening) confrontation with conservation groups, certain frustrations associated with public sector log allocation/selection and pricing procedures, and other matters relating to log production in public native forests. Thus, private plantations are perceived to offer processors major advantages in the form of increased supply security and less government intervention.

Plantations are also more easily managed, and have other benefits which tend to increase yields and lower wood costs. For example, plantations provide opportunities for wood supplies to be located in reasonable proximity to processing plants and for species to be limited to high yielding genetically selected varieties. The resultant more uniform growth, coupled with the opportunity to use mechanical harvesting methods, can significantly reduce wood costs. For those forest industries requiring pulp logs, costs can be further contained by managing plantations to maximise pulping yield, rather than to maximise sawlog production as is currently the practice of most public forest management agencies.

There are some environmental costs associated with the establishment of plantations. The RAC (1992a, p. 35) suggested that the potential environmental impacts of establishment, maintenance and harvesting are greater than they are for current native forest management. The costs of commercial management of plantations include herbicides, shorter rotations, more frequent entry and more roads, all of which means a greater propensity for decline in soil productivity and water quality.

On the other hand, possible environmental advantages of plantations may include: the amelioration and prevention of land and water degradation; the utilisation of waste water for irrigation; an improvement in the microclimate and productivity of farms; and the provision of further forest cover to reduce greenhouse gases. Irrigated plantations can provide additional benefits through their use of effluence, groundwater and saline water, each of which may otherwise be associated with environmental problems.

To complement wood from their own plantations, some forest products producers are encouraging local farmers to engage in agroforestry. Agroforestry on private farmland may offer various benefits to property owners, including shade and shelter, wind erosion control, reduced salinity, reduced catchment eutrophication, protection of remnant vegetation and a positive financial yield.

Impediments

Participants identified a range of constraints on the efficient development of private plantations and agroforestry ventures. These relate to:

- log pricing policies of forestry agencies;
- taxation provisions;
- legal ownership; and
- land use and planning.

Another significant barrier to private wood supply, government export controls, is discussed in Section 6.5.

Log pricing policies

The NPAC (1991, p. 14) stated:

One of the most serious impediments to the development of plantations by small landowners and farmers is the tangled web of restrictions and imperfections that distorts the pricing system for wood in Australia.

As noted previously, a number of studies have found that, in most states, the prices of wood from public forests and plantations have in the past often been below those that a competitive market would achieve. This can be largely explained by there being generally no requirement for public forestry agencies to recover costs and the role that some agencies have been required to play in promoting regional employment and government social policy objectives.⁸

To the extent that logs are underpriced, the activities of the forest products industries are subsidised by taxpayers. Underpricing by forestry agencies also depresses the prices obtainable by private wood growers and, hence, discourages private sector investment in plantations and agroforestry activities. Other things being equal, the net result is a stimulus to investment in forest product activities and a bias against private sector investment in wood production in favour of acquiring higher proportions of wood from government forestry bodies.

In the past, the bias against private investment has been reinforced by rigid purchase agreements for wood employed by government forestry bodies. For example, as outlined earlier, some agreements with government agencies have incorporated requirements that limited the quantities of wood that processors could acquire from private sources. The dominant position of forestry services

⁸ The South Australian Government stated that its agency responsible for plantations — until recently known as the Woods and Forests Department — has been self funding and operating on a commercial basis for some time.

in each state provided producers with little option other than to comply with such conditions.

Inappropriate pricing of logs by government bodies can distort investment decisions by wood using industries and growers of private wood. Corporatisation should help safeguard against underpricing and help eliminate such biases. Plantations would only be planted or replanted after assessment of the true costs and benefits of plantation development.

Taxation

The effect of taxation arrangements on private forestry has been canvassed extensively in a number of previous inquiries. For example, the NPAC (1991, p. 10) expressed the view that:

... taxation treatment of plantation development (and of wood growing in general) represents a major financial disincentive because of the inequitable treatment of long term investments and the so-called period inequity.

Participants in this inquiry also criticised the existing arrangements and sought changes to remove perceived inequities which they claim detract from investment in private wood ventures. For instance, Australian Forest Growers (sub. 18, p. 6) stated that:

We are not asking for any privilege for forestry, but for the rules that apply to others be equally available to the growers of trees for commercial use as primary producers.

Some other participants proposed that taxation policy be used to foster increased plantation development. Underlying this argument is a belief that direct incentives in the form of taxation concessions should be employed to offset difficulties in attracting investment capital to forestry. For example, the NSW Forest Products Association and NSW Logging Association (sub. 12, p. 4) stated:

The federal government, through the use of tax instruments, should promote the use of substantially-cleared land for plantation establishment.

Similarly, the Western Australia Department of State Development (sub. 15, pp. 10, 11) recommended:

... the Commonwealth be asked to recognise the significance of environmental benefits associated with private plantations and take these into account when considering taxation arrangements related to plantations.

Given the very long time frames between planting and harvesting trees, two provisions of the Act which cause participants particular concern are the lack of indexing and the existing income averaging provisions. These provisions relate to two general groups of impediments which have been identified by a number of studies of the current taxation arrangements (eg Bhati et al. 1991, pp. 196-8).

First there is period inequity. This refers to a situation where the tax paid over a number of years varies between taxpayers who, over the period, have identical total incomes. It can result in a taxpayer with fluctuating income paying more tax than a taxpayer whose income is relatively uniform. In the context of forestry operations, it arises because of the progressive nature of marginal income tax rates and the time path of forestry investment income whereby revenues are concentrated in only a limited number of years during a 10-60 year period (ie when plantations are harvested or thinned).

Income averaging provisions and the income equalisation deposit scheme are two provisions established to alleviate period inequity for individual taxpayers engaged in primary production (including forestry). However, analysis by Hansard and Dean (1991) suggests that the income averaging provisions operating in 1991 were ineffective in reducing period inequity for a forestry investment to a level comparable with an agricultural investment.

The upper limit for allowable deductions in respect of deposits under the Income Equalisation Deposits scheme has recently been raised by \$50 000 to \$300 000, giving greater flexibility to private forest growers. The extent to which this will alleviate existing period inequity problems depends on investors' portfolios.

The second impediment relates to a lack of adjustment for the effects of inflation on deductible expenses that have to be carried forward until such time as offsetting income is earned. In the case of forests, this period can be extensive — 20 years or more. It is claimed that, in the absence of indexation, the long lead times involved in growing trees reduces the real value of allowable deductions and makes investment in commercial tree growing less attractive relative to investments which yield revenue flows in shorter time periods.

There are a number of matters which need to be borne in mind when considering this latter issue. First, it needs to be recognised that this issue will not affect the majority of growers. For example, all growers that have income from other sources (eg companies other than those dedicated to plantation development, farmers that grow trees as a secondary activity and individuals who purchase trees as an investment) will be able to deduct expenses as they are incurred from their other income. Second, account also needs to be taken of the favourable tax treatment in the form of the immediate write-off of establishment costs accorded to growers that establish plantations. Those growers that cannot deduct other expenses incurred prior to sale may make a 'tax loss' but, as trees are an appreciating (rather than a depreciating) asset, they would not make an 'economic loss'. Third, costs are not indexed for other commercial activities, including those for which income is also deferred for

many years (eg projects with long construction phases, such as large buildings and certain horticultural projects such as orchard developments).

The Commonwealth Treasury (1993) has recently published a study on the tax treatment of deferred income projects (ie projects which involve initial expenditure to create an asset, but for which receipt of income is deferred for some time). While the study does not explicitly address plantation investments, such investments can be considered as a deferred income project. The study concludes that the tax system is not biased against such projects.

Another area of concern relates to the liabilities of sellers of immature (ie unharvested) plantations. The information available to the Commission indicates that there is quite clearly considerable confusion over this issue. Participants' contention — which has been supported by previous inquiries (eg RAC (1992a) and NPAC (1991)) — is that there is an inconsistency in the tax treatment of plantation owners.

Those companies and individuals that establish plantations and subsequently sell immature plantations will already have benefited from the deductions allowed for establishment costs. However, many participants believe that a subsequent purchaser of such plantations is disadvantaged because the purchase price cannot be deducted until the trees are harvested. In turn, this would imply that, if a plantation is sold again before harvest, there are no available deductions, and tax is paid on the full value of the trees. The extreme case is said to be that of a purchaser who buys and sells a particular plantation on the same day: it is argued that tax is payable on the sale price of the trees with no deduction allowable for the purchase price.

Since the draft report was released, the Commission has sought further advice on this matter. The information now available to the Commission suggests that there may be no anomaly. In the case of the 'extreme case' outlined above, taxable income as assessed by the Australian Taxation Office should generally be net of acquisition costs. In these circumstances, a buyer who bought and sold on the same day, would not have to pay tax (assuming that the purchase price and the selling price were identical).

There is clearly on-going confusion about the application of the Income Tax Assessment Act to forestry investments. This creates uncertainty and impacts adversely on new investment. The Commission considers there is a need for the Australian Taxation Office to clarify the application of the Act to immature plantations. This should form part of the "comprehensive public ruling by the Australian Taxation Office" announced in the NFPS.

Legal constraints on ownership of land

Bunnings referred to the possibility of legal difficulties regarding tree ownership arising if a lease involves disputed tenure of land. This can occur because, under existing Australian law, the owner of land is also deemed to own the trees on the land. Bunnings stated that there is an urgent need for legislation in Australia similar to the New Zealand *Forestry Rights Registration Act 1983*.

The New Zealand legislation offers long-term legal security by extending the 'profit a prendre' concept into a flexible and fully registrable interest called a 'forestry right'. This enables landowners to grant a right to a developer to establish, manage and harvest a crop of trees on all or part of a landowner's property. By separating the tenure of trees and land, such legislation eliminates the need for costly survey and subdivision procedures if disputes arise, and facilitates the separate sale of trees on landowners' properties.

The need to amend current legislation was recognised in the NFPS. The Statement (1992, p. 30) foreshadowed action by state governments to:

... establish a sound legal basis for separating the forest asset component from the land asset for the purposes of selling timber.

The Commission supports initiatives to create a means of legally separating the ownership of land and trees grown on that land. It considers that the necessary measures should be implemented as soon as possible, on a consistent basis, throughout Australia.

Land use and planning

The availability of suitable land is important to the commercial viability of private plantations. Such developments require large tracts of land located within economic haulage distance from processing plants.

Land use for plantations or other forestry investments is directly and indirectly affected by a range of government policies and controls (eg underpricing of logs by forestry bodies and relatively high government assistance provided to some rural industries — such as dairying — have reduced the ability of private tree growers to compete for land). However, more important factors influencing the availability of land are land zoning, planning controls and related regulations enacted by local governments.

Restrictions on plantation development largely reflect concerns of some local communities that such developments will have a detrimental impact on their region. Some fear that the conversion of agricultural land to plantations will destroy traditional rural lifestyles. There are concerns, for example, that it will lead to a fall in population which could result in the closure of local schools and

the downgrading, or closure, of other facilities and amenities (eg medical services). Some local farmers fear that the resumption of agricultural land for plantations will reduce their growth potential while, in some communities, concerns centre around fire risks posed by plantations and road damage caused by logging trucks.

In response to local community concerns, some local government bodies have introduced zoning restrictions and planning controls which prohibit plantations in certain areas or, unlike other rural pursuits, allow them to proceed only if a permit is granted. In some shires, plantation development is impeded by the additional costs involved in complying with local government requirements. For example, the Institute of Foresters of Australia (sub. 5, p. 5) stated:

Currently, difficulties are being experienced in some parts of Australia with adverse planning rulings by local governments which disfavour new plantation development. In part, this attitude is a hangover from past land purchase activities of State agencies, who bought farmland to establish large blocks of plantation. Some Shires which are dominated by old style farmers effectively “zone” their area to exclude plantation development by such means as prescribing impractical firebreak requirements.

NAFI stated that administrative costs associated with submitting permit applications and appealing against determinations are significant. It cited a number of instances where appeal processes extended over periods of between nine and fourteen months. In one instance cited by APM, obtaining local and regional harvesting permits resulted in an additional \$6 per cubic metre in legal fees alone. The company stated that this was the equivalent of almost 60 per cent of what it believed the wood cost should have been at stump. Other participants claimed that additional costs are imposed on plantation owners in the form of discriminatory rating levies and additional charges on logging trucks.

Some local government regulations and practices discriminate between plantation developments and other agricultural activities. There would seem to be little basis to support continuing discrimination. There is, for example, no substantive evidence to show that plantation developments are more likely to impose environmental costs on the community than are other primary activities which are not subject to the regulations and planning controls applied to timber plantations. Any benefits resulting from the controls are likely to be small and accrue to a relatively small number of individuals within local communities. In contrast, the costs (in the form of inefficient plantation development) could be large and have significant ramifications for a much wider cross-section of the community.

The need to overcome the problems posed by the current restrictions was recognised in the NFPS. It stated (p. 31) that there is:

... a need for State and local governments to simplify planning procedures and to ensure that land use planning controls and land rating systems do not discriminate against plantation development.

The NFPS proposed that state governments, with appropriate public involvement, should pursue planning policies that provide zoning suitable for commercial planting on private lands. Security for this zoning would be given by making tree planting and subsequent harvesting for commercial wood production an 'as of right' use. It also stated that state governments will seek to ensure that the rating basis used by local government authorities removes disincentives to the conservation of native forests and the establishment of plantations on cleared agricultural land.

6.5 Government export controls

Government regulations

Using its powers under the *Export Control Act 1982*, the Commonwealth Government has required that licences be obtained for exports of logs and woodchips from all public and private forests and plantations. Licences, which have to be renewed annually, stipulate that unprocessed wood cannot be exported if it can be used in a domestic processing plant to promote domestic value adding. Licences are subject to Commonwealth approval of export prices.

Additional restrictions have been applied by some state governments. For example, in Tasmania, an annual limit has applied in the past to export woodchips while, in Victoria, the direct harvesting of pulpwood for export woodchips has been restricted by a requirement that all logs extracted from state forests be processed through a sawmill.

In Western Australia, a 'Forest Residue Utilisation Levy' applies to export woodchips. At the draft report hearings, the Western Australian Department of Resources Development stated that the levy is used as a means of providing financial support to allow the Department to fund studies and programs which will "lend to added value to forest residues". It added (sub. 61, p. 13) that:

The levy charge on woodchips exports is considered valid where there has not been significant progress by the company [Bunnings] to diversify into plantation eucalypts nor has it been able to justify investment in a pulp mill before today ...

The funds raised by the levy (which amount to about \$400 000 annually) have enabled the Department of Resources Development to investigate, and call for expressions of interest in, a new pulp and paper mill in the State's south west.

In the March 1991 Industry Statement, the Prime Minister announced that it is the Commonwealth Government's objective to phase out woodchip exports in favour of domestic value added products by around the year 2000. This objective was supported by State Governments at the 1991 Special Premiers' Conference:

State and Federal Governments share the objective of phasing out woodchip exports from native forests in favour of downstream processing of the resource (pulp and paper mills) by the year 2000 ...

Some participants interpreted this announcement as flagging government intentions to eventually ban woodchip exports. However, this view is not supported by some subsequent government statements. For example, a recent press release by the Commonwealth Minister for Resources (Griffith 1993) stated that:

... only woodchips which are surplus to the requirements of domestic processing industries are exported, but he made it clear that it was the Government's strong desire to see further processing of our forest resources in Australia when this was both feasible and appropriate.

Administrative processes

The administrative procedures to gain export approval include assessments by relevant Commonwealth and State environmental authorities. This can cause delays and add considerably to industry costs. For example, Bunnings cited an application to export a small quantity of chips lodged in November 1991. Largely because of the need to prepare environmental assessments, the company estimated that it would take about 18 months before it would be able to commence exporting. At the draft report hearings in July 1993, the company indicated that it was still awaiting approval from the State Environmental Protection Authority, and that the delay has forced it to forgo three opportunities to sell the chips. (The proposal was subsequently approved later in July.) Bunnings also stated that the on-going need to obtain approval for export prices precludes the company from competing for spot market sales against international suppliers that are not subject to government price monitoring procedures.

In a submission to this inquiry, CSR also commented on the delays in obtaining export approvals and the costs associated with such delays. The company indicated that the need to comply with specific Commonwealth Government legislation can precipitate action by other governments. For example, CSR stated that it is required to pay a local council transport levy on exports — but not on products for domestic consumption (see Box 6.3).

Box 6.3: Difficulties associated with obtaining export licences

... this company had acquired the rights to harvest a large private plantation in Queensland as input to one of its sawmills. The operation produced a large volume of small pulplogs for which no market in Australia exists, we managed to locate an overseas customer for this material, but because the customer required the material in the form of chips we needed an export licence from the Federal Government.

The Government insisted on a full EIS to harvest the product from a private softwood plantation. The cost of the EIS was about \$100 000. We had to agree to have our operation audited by an outside agency, and we must employ an outside agency to monitor the water condition between the mainland and Bribie Island. We also pay a road levy to the local councils for the use of the roads to transport our export products. None of these additional charges or controls apply to any other agricultural operation or to our own domestic operations, they are close to extortion based on the Government's power to refuse the issuing of an export licence.

The total process took in excess of 12 months during which about \$8 million worth of product had to be destroyed and the 60 people needed for the process remained unemployed.

Source: CSR (sub. 10, p. 5)

APPM (sub. 38, p. 47) also commented on the 'leverage' that the export controls provide to other governments. It stated that the controls deny the company the opportunity to source some of its wood requirements from cheaper private sources.

The Tasmanian Government is in a particularly powerful position to influence the Minister [the Commonwealth Minister for Resources] ... It is a matter of concern that the Tasmanian Forestry Commission, which is of course a major wood supplier, has sought to oblige the company to source its requirements from public forests regardless of our own preferences, by use of this influence.

According to APPM, this has not only increased its wood costs, but has also impeded the company's ability to increase its tree planting program on freehold land currently under native vegetation.

A number of producers commented that the need for licences to be renewed annually creates considerable uncertainty because the renewal processes inevitably become politicised and decisions on renewals are deferred. As a result, exporters cannot guarantee future supplies and importers are encouraged to source woodchips from overseas producers that can offer greater security of supply. The timing of export licence renewals for 1993 illustrates producers' concerns in this area: the renewal of woodchip export licences for 1993 was announced by the Commonwealth Minister for Resources on 4 January 1993.

Assessment of export controls

In recent years, the total volume of woodchips exported has been a little less than the aggregate of entitlements. If entitlements were freely transferable, this

could imply that the present controls do not restrict woodchip exports. However, this is not the case — licences are specific, not only to the designated companies, but also to the port of shipment. Moreover, there is evidence that some current exporters and potential exporters have been restricted and that wood in Gippsland, Tasmania and certain other parts of Australia which could have been converted to chips has been left to rot on the forest floor. For example, APPM submitted to the RAC inquiry (1992a, p. 308) that:

In Tasmania, estimates suggest that pulpwood currently being wasted under the quota regime could sustain an increase in woodchip exports of at least one million tonnes annually above the present quota of 2.889 million tonnes.

To the extent that woodchipping activity has been constrained, export income, government royalties and employment opportunities have been forgone. Opportunities to add value to a resource which would otherwise be wasted have been lost. The analysis in Appendix G suggests that the controls could have resulted in annual losses in export income and GDP of about \$140 million and \$55 million respectively.

Even if all export restrictions were immediately removed, it may now be too late to fully exploit the available resources. According to participants, this is largely because the uncertainty and politicisation associated with annual export licence reviews has already encouraged Japanese buyers to diversify their supply sources. This has resulted in Australia's share of woodchip exports to Japan falling from over 60 per cent in 1985 to about 35 per cent in 1990. NAFI (transcript, p. 393), for example, stated that:

... licences are only issued annually and typically the renewal of the licence takes place right at the eleventh hour ... Right up until that time, the company can't be sure of the size of its licence or what the arrangements will be ... We believe that the export licensing has been a major factor in the Japanese moves to alternative suppliers.

The costs associated with the export restrictions are not confined to the woodchip industry: they also impact adversely on sawmilling operations. This occurs in two ways. First, export restrictions limit the ability of sawmillers to dispose of sawlog residues as chips. As chips can account for over one-third of the volume of hardwood sawlogs, this deprives sawmillers of a significant source of income and can undermine the viability of (higher value adding) sawmilling activity. For example, CSR (sub. 10, p. 2) stated:

By government focussing on the control of chip exports rather than on the inhibitors to further processing, it has encouraged customers to seek supply elsewhere and has in effect reduced the margin in the sawmilling industry.

Second, restricted access to export markets has reduced the incentive for forest thinning which, in turn reduces the availability of sawlogs. For example, Sprengel and Associates (sub. 13, p. 5) commented:

In WA, that [sustainable] yield is available in the form of pulp logs in greater growth than we can consume and over the next 50 years must be harvested to provide us with the higher value sawmill size logs ...

Similarly, in its submission to an earlier Commission inquiry into Raw Material Pricing (IC 1992b), the Wood Panels Association (sub. 29, p. 3) noted that:

Thinning is a necessary part of the silvicultural treatment of softwood plantations. Without thinning, expected yields of sawlogs will either not become available, or the production period will extend unacceptably.

At the draft report hearings, SEAS Sapfor supported the maintenance of restrictions on the export of logs, unless the logs are surplus to domestic requirements. The company's main concern is that, given the reduced availability of logs from the US west coast and from the coastal region of British Columbia, increased quantities of logs could be exported to the detriment of domestic processors.

Restrictions on log exports would benefit local wood processors by increasing the availability of logs and, to the extent that demand is reduced, reducing stumpage. On the other hand, the maintenance of the restrictions is not costless. By restricting demand, domestic log prices would be indirectly subsidised. This would reduce government revenue, reduce the profitability of growing wood and discourage investment in plantation development and forestry generally. Similar considerations apply to restrictions on woodchip exports.

The New Zealand Government recently removed restrictions on the export of unprocessed logs. In a submission to this inquiry, the New Zealand Ministry of Forests (sub. 81, p. 1) supported this initiative:

... log export restrictions were seen to be inhibiting the efficient development of the industry as they artificially enhanced the returns to one sector (domestic commodity processing) by restricting the returns to another (forest growing). Such restrictions caused private investors to shy away from investing in such plantations, ... the restrictions artificially lowered the cost of logs to domestic processors. This was a boon to domestic processors (at the time) as it allowed them to boost production. But in reality, such artificially lowered log prices simply allowed processors to delay essential rationalisation decisions, to become relatively inefficient and inward looking and hence, to become less internationally competitive over time.

There is an argument for restricting exports if Australian producers can exercise market power so as to influence international prices. In technical terms, this requires that the demand for Australian exports be less than perfectly elastic. In these circumstances, it may be possible to increase returns to Australia as a whole by limiting trade and forcing up international prices.

If, however, some intervention is warranted to maximise export returns, the most efficient means of restricting exports would be to impose an export tax.

This would limit exports to the more efficient producers. In contrast, the current export controls primarily reflect concerns about domestic processing and environmental matters rather than the magnitude of export revenues. Consequently, the controls are determined administratively on a case-by-case basis, and mainly on the basis of wood supply considerations. As a result, it would be purely coincidental if the current controls also maximise export returns.⁹

The 1992 NFPS is expected to result in some easing in Commonwealth export controls. Subject to the adoption of satisfactory codes of practice to protect environmental values, the Commonwealth has announced that it will remove the controls over the export of unprocessed plantation wood (ie logs and woodchips). The Commonwealth also announced that it will:

- consider export licence approvals for terms longer than the current annual renewal period for unprocessed wood sourced from public and private native forests covered by ‘comprehensive regional assessments’;¹⁰ and
- Review the adequacy of existing mechanisms pertaining to transfer prices of wood products.

Even with these changes, significant Commonwealth export restrictions would remain. Licences would continue to be required for the export of unprocessed wood from both public and privately owned forests. Furthermore, given the need for agreed regional assessments and the commitment of the Commonwealth to only “consider” other options, there is no guarantee of a shift away from annual licence reviews. Consequently, while the changes may overcome some problems in relation to the export of plantation wood, restrictions on the export of logs and woodchips produced from native forests could remain. Thus, many of the costs associated with export restrictions would also remain.

The restrictions may yield environmental benefits by reducing harvesting in native forests. However, the Commission is unaware of any practices having adverse environmental effects associated *only* with logging operations for the purpose of producing woodchips for export markets. Hence, if harvesting is to be restricted to promote environmental goals, it would be more efficient to do

⁹ A 1991 study (Streeting and Imber) found that the Australian woodchip industry does have some ability to influence international prices. It concluded (p. 96) that an export tax on woodchip exports is “worthy of careful consideration”. However, the recent emergence of new overseas woodchip export suppliers, with the prospect of further new entrants in the short-medium term, casts significant doubt on Australia’s ability to influence export prices in future years.

¹⁰ Commonwealth-State regional agreements specifying government obligations for forests in a region.

so by directly regulating *all* logging activity in designated areas. The appropriate use for harvested wood could then be determined on commercial grounds. In contrast, the present restrictions selectively target logging for one end use only — woodchipping. Moreover, they apply only to woodchips destined for export markets. They do not apply to woodchips used domestically. They also apply irrespective of the differing environmental values associated with different regions in which pulp logs are harvested for woodchipping operations. Consequently, export restrictions are a blunt and inefficient means of achieving environmental objectives.

The Commonwealth export restrictions are also intended to help ensure that the prices of export woodchips are not negotiated with overseas buyers in a manner intended to reduce exporters' Australian tax liability. However, export restrictions are also an indirect means of addressing 'transfer pricing' concerns. To the extent that such concerns exist, they are more efficiently tackled by using investigative powers encompassed in taxation legislation.

The Commission accepts that there may well be a legitimate role for government in promoting investment opportunities. However, to the extent that the levy applied to export woodchips by the Western Australian Government is largely a revenue raising tool which provides no direct good or service to the two companies to which it applies, it is tantamount to a tax. Similar considerations apply to the woodchip export levy paid to the Tasmanian Government by APPM and Forest Resources.

The Commission has been unable to identify any compelling reason for discriminating between logging operations associated with the production of unprocessed wood for export markets and other logging activities. More generally it cannot identify a case for discriminating between the treatment of logs and woodchips for export and other rural sector exports. It considers that any benefits arising from the present controls are substantially outweighed by the costs. It recommends that all government export controls and discriminatory levies and taxes be removed. If warranted, more direct measures can be used to address environmental and other concerns which would not give rise to the significant costs associated with export controls.

Removing the existing restrictions would not reduce the capacity of the Commonwealth to regulate exports at some future date. The Commonwealth would retain the power provided it under the Constitution to regulate exports. Consequently, if the Commonwealth were to judge that, for environmental or other purposes, it was prudent to reintroduce export controls, it would be free to do so. However, in the event that such circumstances arose, it would be more efficient if Commonwealth action was specifically targeted at the particular project(s), or the forest region, which is causing the concern. Moreover, if

licences are deemed necessary, they should be of a longer duration than the existing annual licences (eg 5 years). Longer licence periods would allow the Commonwealth to meet its objectives while providing firms with some flexibility to enter into commercial supply arrangements.

7 GOVERNMENT PROVIDED SERVICES

The forest products industries rely heavily on inputs purchased directly from government suppliers (eg electricity, gas and water) and on the services provided by publicly owned infrastructure (eg ports and roads). In many cases, governments are the sole suppliers of such goods and services. Consequently, poor performance by government bodies can materially damage the competitiveness of the forest products industries, as can regulations which impair the efficient use of government-provided infrastructure (eg those governing the use of public roads).

Discussions with industry representatives revealed a number of concerns about the efficiency of government bodies. While many producers commented upon improvements that have been achieved in recent years, further improvements are considered a vital component of initiatives to increase the forest industries' competitiveness.

The areas of major concern to forest products producers appear to be land transport, sea transport and energy supplies. While many participants were critical of the general performance of government business enterprises, little specific information was provided about the nature of inefficient practices, and on how such practices impact on producers' operations.

Participants' concerns about the services provided by government land transport, port and shipping, and energy agencies are considered below.

7.1 Land transport

There was some criticism of rail transport. For example, ANM stated that the cost of rail transport for newsprint from its Albury mill to Perth (\$160 per tonne) is greater than transport costs from South Africa and New Zealand to Perth (\$103 and \$140 respectively). Greater concern was expressed about road transport regulations and trucking costs in Australia. APM, for example, stated that road freight rates from its Maryvale Mill to Sydney and Brisbane are significantly higher than the rate it will pay to have product shifted from its new plant in New Mexico to Los Angeles (\$A0.05 per tonne-kilometre compared with \$A0.033 per tonne-kilometre). However, the majority of criticism was directed at road transport regulations in Tasmania.

Tasmanian road user regulations in the 1980s

Road transport in Tasmania has been highly regulated. Until the recent easing of some regulations, trucking operations have been constrained by regulations which, among other things:

- prevented 24 hour-a-day trucking operations;
- precluded the use of 'B-doubles';¹
- limited gross vehicle mass;
- required a fee be paid for trucking operations that could be performed by rail; and
- permitted trucking operations to be undertaken only by licensed operators.

These regulations imposed greater restrictions on road freight operations than those that generally applied elsewhere in Australia. For example, on the mainland, trucks have generally been able to operate on an around-the-clock basis on weekdays. In Tasmania, they have been limited to the period between 4.00am and 8.00pm. Some states restrict Sunday trucking operations (eg in Victoria no carting is permitted between dawn Sunday and dawn Monday), but weekend operations in Tasmania were more severely restricted. Carting operations were prohibited on Sundays and could only take place on Saturdays if a permit had been obtained. It is common for the use of B-doubles to be restricted to particular roads in other states, but they are not totally prohibited as has been the case in Tasmania. The allowable gross vehicle mass for six axle semi-trailers has also been less in Tasmania than on the mainland (41 tonnes compared to 42.5 in mainland states).

A permit fee of 1.4 cents per tonne-kilometre of gross vehicle mass has been imposed on trucks carrying logs, timber and certain other goods (eg superphosphate and cement) more than 100 kilometres on routes where rail freight services could be used. (This could be viewed as a means of offsetting low road user charges although, given its limited coverage, it would not be an efficient means of doing so.)

Under the *Tasmanian Traffic Act 1925*, trucking operators have had to be licensed. Licences have generally allowed operators to cart only a specified commodity within a designated region. These arrangements were introduced to protect "costly duplication of services" as buses and trucks emerged to challenge the role fulfilled at that time by state-owned railways and tramways, and to ensure that all areas of the State were effectively serviced. The

¹ A 'B-double' is a vehicle consisting of a prime mover towing two semi-trailers, where the first trailer is hitched to the prime mover's, 'fifth wheel', and the second trailer is hitched to a fifth wheel on the frame of the first trailer.

administration of the Act was subsequently broadened to encompass virtually all forms of public transport in Tasmania (eg taxis, hire cars and air ambulances).

It is not clear to what extent the licensing procedures have restricted entry to the industry. However, in the case of logging, it is understood that there have been no new entrants for many years and that some licence applications have been refused. To the extent that applications are refused, users' choice is restricted and competitive pressures are reduced.² In turn, this reduces the incentives for services to be provided at least cost and to be responsive to users' demands. Competition has also been reduced by route and commodity restrictions attached to some licences.

Recent changes in Tasmanian road user regulations

Circumstances have changed substantially since the Traffic Act was introduced in 1925. Many rail services have been withdrawn. The railway operations remaining in Tasmania are now operated by a Commonwealth entity — Australian National. As in the rest of Australia, the Tasmanian road freight industry has developed considerably. There are now over 5000 operators. There is no need to restrict competition to ensure that freight transport services are available throughout the State. In other states, regulations protecting rail freight have been eliminated or substantially reduced.

Measures have been put in place to relax road user regulations in Tasmania over the last 12 months. In particular:

- the rail protection fee was reduced by one-third on 1 July 1993, and is to be removed completely by 1 July 1995;
- the maximum gross vehicle weight for six axle semi-trailers has been raised to 42.5 tonnes, the same as that on the mainland;
- operating hours have been extended, but the extension has to be approved and a fee is payable; and
- trials of B-double trucks have been undertaken to help assess whether such trucks should be permitted to operate in Tasmania.

In addition to these measures, the licensing of truck operators is currently being reviewed by a working party of the Tasmanian Transport Industries Advisory Council.

The Commission accepts that circumstances in Tasmania may differ from those in other states. Nonetheless, it cannot identify any public benefit stemming from

² In 1987–88, a little under 10 per cent of licence applications (for the carting of all commodities subject to the licensing provisions — 52 in total) were refused.

the regulatory arrangements (other than those that may have accrued to existing licence holders). On the other hand, costs have been imposed on user industries. This has undermined their competitiveness and reduced employment opportunities.

In its initial submission to this inquiry, APPM estimated that, if the trucking licences and the rail protection tax were removed, and if other regulations were modified so as to parallel those existing in other states, it would be able to reduce transport costs in some areas of its operations by around one-third. The company provided detailed supporting evidence on a confidential basis.

The Commission recognises that the Tasmanian Government is taking steps to relax some inefficient road user regulations. The changes will improve the efficiency of trucking operations in Tasmania and increase user-industries competitiveness, including the forest product industries — an important sector of the State's economy. However, if the benefits of reform are to be maximised, the Commission considers that it is essential that the licensing be removed as soon as possible, the rail protection fee be abolished and that other road-user regulations should be modified so that they parallel those existing in other states.

In the case of logging trucks, the Tasmanian Government has announced its intention to buy out some licences to remove excess capacity which currently exists. The Government has proposed that companies engaged in the industry (eg ANM and APPM) contribute to the buy-out fund.

According to APPM, this issue is inhibiting reform. At the draft report hearings, the company (transcript, p. 686) stated:

The basic problem is that the Tasmanian Government has said that if we want to see reform in transport for our operations in relation to hours of work, axle-loads, rail protection, cart pass fees, the use of B-doubles, etcetera, then the government is prepared to introduce that as long as we pay \$3 000 000, and that \$3 000 000 is to help to buy out excess capacity in the industry.

The case for considering compensation largely rests on whether, by restricting entry and/or industry operations, the regulatory arrangements have advantaged truck operators, and if operators have made investment decisions based upon the current arrangements. If this is not the case, there would seem to be no basis for considering compensation. For instance, there would seem to be few grounds for compensation if the adjustments which are now deemed to be necessary simply reflect changes in market conditions (eg the introduction of more efficient equipment).

The Government could take the view that trucking regulations — like government regulations in many other sectors of the economy — are subject to

on-going revision, and that the prospect of change is a normal commercial risk. This view, coupled with the fact that a market exists for most second hand trucks and that licence holders may have already extracted some of the 'economic rents' usually associated with licensing, would lead to the conclusion that compensation is not appropriate.

If the Government is concerned about the effect on truck operators of the removal of the licensing system, or of other regulatory changes, it could provide sufficient notice of the intended changes to allow operators to obtain a return on their 'investment'. One disadvantage of this approach is that it would defer the realisation of benefits associated with the removal of inefficient regulations. Another alternative would be to provide direct financial compensation. If the Government elects to follow this course — which the Commission understands is the Tasmanian Government's preferred course of action in the case of log trucks — the Commission considers that compensation should be paid for by the body which has both created (and intends to modify) the value inherent in the regulatory system — the Tasmanian Government. The only possible grounds for seeking compensation from user-companies would be that such companies are the principal beneficiaries of the proposed changes. However, even if this could be demonstrated, it is difficult to argue that user-companies should be obliged to pay, particularly as they have also been the parties penalised by the existing provisions.

There is also a need to continue work on implementing reforms currently being addressed by the National Road Transport Commission. Part of that Commission's work involves the development of a more efficient system of road charges for heavy vehicles. An improved charging system would promote more efficient and effective provision and maintenance of roads although, to the extent that it may involve heavy trucks paying higher charges, it could increase transport costs for the forest products industries.

7.2 Port and shipping services

The operations of Australian ports and coastal shipping services have been reviewed by a number of bodies over the last five years or so (eg IAC 1988b, ISC 1989, BTCE 1989 and IC 1993). There have also been a number of recent reviews of trans-Tasman shipping and of liner shipping services into and out of Australia (eg BTE 1986 and 1987, and Swan Consultants 1992).

A common theme that has emerged from these reviews is that substantial inefficiencies have existed and that, because of these inefficiencies, shipping costs have been unnecessarily high. For example, in summarising the ISC

findings, the (then) Commonwealth Minister for Transport and Communications stated³ that the waterfront was:

... characterised by ineffective management, poor work force motivation, introspective industrial attitudes, high costs, endemic unreliability, poor response to user needs, abuse of monopoly power and a pervasive lack of competition.

and that:

... the gross inefficiencies which have been allowed to develop in these [shipping and waterfront] industries have restricted our economic growth, reduced our living standards and impaired our capacity to develop export markets.

Many of the inefficiencies have been attributed to the limited exposure of shipping and associated activities to competitive pressures. For example, international shipping rates are inextricably linked with shipping 'conferences' - associations of shipping companies which act together to offer common prices and to schedule sailings over defined routes. While such agreements would normally be regarded as constituting anti-competitive behaviour, they are currently permitted under Part X of the TPA. This section of the Act is presently being reviewed by a panel established by the Commonwealth Government.

Past reviews have found that significant efficiency improvements could be achieved in four major areas: coastal shipping; waterfront operations; port authority activities; and international shipping operations. Improvements in these areas were estimated to result in substantial cost savings. For example:

- The IAC (1988b) concluded that, if the cabotage arrangements which protect Australia's coastal shipping fleet from competition from foreign-manned vessels were removed so that international freight rates applied on the coastal routes, freight rates would be 20 to 50 per cent lower.
- The ISC (1989) waterfront investigation reported that savings of 35 per cent of stevedoring costs were possible, mainly through the implementation of measures to eliminate out-moded work practices.
- A BTE (1987) study undertaken in conjunction with the New Zealand Ministry of Transport found that freight reductions of 24 per cent for non-bulk cargoes and 50 per cent for bulk cargoes were possible on the trans-Tasman route. (A union accord effectively reserves trans-Tasman freight of Australasian-origin for Australian and New Zealand crewed vessels.)

³ Minister for Transport and Communications, Ministerial Statement on Reform of the Shipping and Waterfront Industries, House of Representatives, Weekly Hansard, No. 8., 29 May to 1 June 1989.

- Swan Consultants (1992) found that reserving trans-Tasman trade for Australian and New Zealand ships imposes an annual cost on the Australian and New Zealand economies of \$A39 million and \$A38 million respectively.

While not accepting the need for some of the reforms proposed to improve efficiency (eg abolishing cabotage), governments responded to the various reviews by implementing a range of measures. Initiatives to improve efficiency included the introduction of a retirement and redundancy package to enable 9000 waterfront workers to leave the industry, a reduction in the average crew size on coastal vessels and measures to increase the commercialisation of port authorities. Central to the initiatives was the creation of the Shipping Industry Reform Authority and the Waterfront Industry Reform Authority (WIRA) to oversee implementation of the reforms.

Some significant gains have been achieved following the reforms. On the waterfront, time lost through industrial disputes has fallen, productivity has increased and ship turn-around times have been reduced. According to WIRA (1992), efficiency improvements resulted in a reduction in stevedoring charges of 20 to 25 per cent in 1991. A report by the PSA (1992) found that some, but not all, of the cost savings have flowed through to shippers. Reform of port authorities has resulted in a significant fall in employment (from around 7000 to a little over 5000) and moves to place port charges on a user-pays basis. Improvements in coastal shipping have come about mainly as a result of falls in average crewing levels — average manning levels for trading vessels over 2000 deadweight tonnes fell from 28 to 21 between mid-1989 and mid-1992. Analysis undertaken by the Commission suggests that prospective gains may now be in the order of 10-15 per cent.

Estimates of the impact of future reforms on the waterfront and on coastal shipping are estimated in Appendix G. The analysis suggests that, while the impact on the forest products sector is relatively modest, GDP could increase by around \$450 million annually.

Some participants acknowledged that there have been improvements in the provision of port and coastal shipping services. For instance, Boral (transcript, p. 178) commented favourably on waterfront reform at Newcastle:

... the labour that has been needed to load a woodchip boat has now been cut down quite dramatically, so it is a pretty good operation and basically we don't have too many troubles.

Similarly APPM — which is a major user of coastal shipping services, principally Bass Strait services — stated (sub. 38, p. 19) that:

... improved productivity (which we estimate to be in the order of 30% across the stevedoring industry) has undoubtedly improved turnaround for ships in port, and enabled shipping companies to maintain more reliable schedules.

However, a number of participants commented that direct cost savings (ie reductions in charges) have been small or non-existent. For example, APM (sub. 36, p. 15) commented that:

... despite waterfront reforms, no tangible benefits have flowed to shippers in terms of freight rates.

While noting that information published by the Australian Shipping Users Group suggested significant improvements, including a reduction in container handling charges, the Australian Wood Panels Association (sub. 16, p. 9) expressed similar views:

... AWPA members have to date received no benefit from cost reductions.

A common view expressed was that, while improvements have been achieved, waterfront and coastal shipping activities are still not internationally competitive. ANM, for instance, stated that its Boyer mill is disadvantaged because distribution of the newsprint produced in that mill to mainland centres involves crossing Australian wharves twice. However, ANM also stated (sub. 45, p. 22) that:

The inefficiency of the Australian waterfront provides a level of protection for mills such as Albury distributing predominantly on the Australian mainland.

Bunnings, which said that overseas freight costs represent some 14 per cent of its export revenue, attributed high international freight costs to the existing shipping conference arrangements. The company suggested that the review into Part X of the TPA should be accelerated.

The New Zealand Ministry of Forestry provided comparisons of New Zealand and Australian port charges supplied to it by one New Zealand exporter. They suggest a substantial difference in charges. For example, port charges are claimed to be \$NZ 2 500 in New Zealand compared to \$NZ 16 000 for the same ship in Australia. The Ministry of Forestry (sub. 81, p. 2) added:

Such rates are indicative only and no doubt vary substantially from company to company, cargo to cargo and port to port, but they nevertheless illustrate that New Zealand's port reform process has been relatively more successful than Australia's. As one shipping company expressed it, the average pre-reform port charges in New Zealand were 83% of the equivalent rate in Australia, whereas the post-reform average port charges in new Zealand are now 47% of post-reform charges in Australia.

There has clearly been some improvement in the efficiency of ports, coastal shipping services and some related activities. Nonetheless, continued reform is required if these activities are to be internationally competitive and not stand in

the way of improved export performance by Australia's forest products (and other) industries. The implementation of recommendations contained in the Commission's report on Port Authority Services and Activities — which would result in ports operating in a more commercial manner and in the exposure of some port services (eg towage) to increased competition — would help improve efficiency further. It would, of course, also increase the competitiveness of imported forest products in the domestic market.

7.3 Energy supplies

While in-house generating capacity reduces energy costs for many forest products producers, energy remains an important component of many producers' costs. ANM, for example, stated that electricity represents 32 per cent of manufacturing cost at its Albury mill. For energy-intensive users such as ANM, it is clearly essential that energy be supplied efficiently and at least cost.

Electricity supply in each state and territory is currently controlled by government instrumentalities. The arrangements for the supply of natural gas are more diverse. In Victoria, Western Australia and South Australia, gas distribution is undertaken by government agencies whereas, in New South Wales (including the ACT) and Queensland, gas is reticulated by private companies. A factor common to both industries is the limited exposure of the industries to effective competition. In some end uses, there is some competition between electricity and gas (eg residential heating). However, electricity and gas suppliers are effectively sole providers in the regions they service.

Although there are quite significant variations between regions and different user categories, average energy prices in Australia are broadly competitive with those in other developed countries. However, as pointed out by APM and ANM, aggregate data on electricity prices may not accurately reflect the prices actually paid by energy-intensive industries or by particular firms. The more important issue, however, relates to whether energy prices in Australia are as low as they should be.

Recent studies and actions by Australian governments to improve the efficiency of their energy utilities indicate that there is considerable scope for improvement. For example, in a 1991 report into Energy Generation and Distribution, the Commission estimated that the adoption of better production and pricing by energy utilities could expand national output by \$2.4 billion annually and create an additional 8000 jobs. A study by Swan Consultants (1991) found that Australian electricity utilities were operating at only 70 per cent of the productivity levels of investor-owned utilities in the United States.

These findings suggest that electricity prices in Australia should be lower than what they currently are.

A number of producers participating in this inquiry criticised electricity prices. For example, APM (sub. 75, p. 2) stated that:

Industrial electricity prices are significantly higher than they should be, given the low cost energy resources available. In APM's view, this is primarily a result of the lack of competition in the electricity supply industry ... Government interference in pricing policies for political reasons has resulted in cross-subsidisation of domestic tariffs by industry, leading to higher than necessary electricity prices for industry.

Concern was also expressed about the 'buy-back' prices offered by state authorities for electricity generated by industry. Participants stated that the prices offered were artificially low and discouraged the development of cogeneration plant.

Recognising the scope which exists for improving efficiency, most governments have taken steps to improve the performance of their energy utilities. Considerable progress has been achieved in improving efficiency.⁴ Although progress varies between states, most have implemented some of the measures required to place electricity authorities on a more commercial footing. However, to date only limited progress had been made in introducing measures to address what is perceived by many to be the major factor underlying inefficiency in the industry — the limited effective competition.

Increased competition in electricity supply would make it difficult, if not impossible, for cross-subsidies to be sustained. It would also increase the incentive for electricity suppliers to minimise costs by, among other things, offering more realistic buy-back prices for privately generated electricity in order to reduce their overall supply costs.

A pre-requisite for increased competition is fair and open access to transmission facilities. While measures proposed by the National Grid Management Council would permit a degree of access, there is considerable reluctance to separate state-owned generation and transmission facilities so as to ensure that non-discriminatory access is available to all. There is also resistance to segmenting generating and distribution assets into a number of independent entities so as to promote competition in these sectors.

The Commission considers that there is a need to accelerate reform of the electricity supply industry. It considers that the implementation of the policy options advocated in its earlier report into energy generation and distribution

⁴ The Electricity Supply Association of Australia stated that the electricity supply industry has reduced its workforce by about 21 per cent since 1983 and raised overall productivity by more than 20 per cent.

would help achieve this objective. This would involve full separation of state owned generation and transmission assets and breaking up existing generation and distribution assets in each state.

Reforms that lower electricity suppliers' costs and reduce (or eliminate) existing cross-subsidies will generally advantage the forest products industries. On the other hand, it needs to be recognised that some reforms may disadvantage users. For example, requirements for public energy suppliers to pay all government taxes and charges and pay a dividend to government will decrease the capacity for energy tariffs to be lowered and, in the absence of off-setting cost savings, will tend to increase energy charges.

APM and some other participants also expressed concerns about cross-subsidies in natural gas supply and the need to create a more competitive market. The Commission concurs with this view.

Competition in the supply of natural gas will be promoted by the adoption of the National Gas Strategy announced by the Commonwealth in late 1991. More recently, the Commonwealth Government has announced that it will develop a national regulatory framework for interstate trade in natural gas. Part of this initiative — a requirement that pipeline owners provide access to other parties — should also help foster competition. However, to ensure that competition evolves, states also need to consider measures similar to those proposed for the electricity industry (the separation of transmission and distribution assets, and the creation of multiple distribution franchises in each state).

8 OTHER IMPEDIMENTS

The previous two chapters have considered wood supply — in which governments are heavily involved as regulators and major owners and managers of forests — and government-provided services. This chapter considers various other impediments identified by participants, namely:

- management and labour issues;
- project approval processes;
- intervention to encourage paper recycling; and
- building codes, product standards and quality assurance.

Other factors which impair competitiveness, but which are largely controllable by the companies themselves — such as the choice of technology and the scale of plant — are discussed in Chapter 10.

8.1 Management and labour issues

Many management and labour matters are determined by direct negotiation between the industries, their employees and unions. However, the framework within which such negotiation occurs is largely determined by Australia's industrial relations system which, among other things, specifies minimum employment conditions, defines the scope and manner for negotiating enterprise-based agreements and prescribes measures which employers must comply with in order to help ensure that the safety of workers is not put at risk. Thus, although many labour issues (eg industrial disputes) may not be controllable by government, the influence of government over labour matters is considerable. Given these circumstances, the labour market issues raised by participants are discussed together in this section of the report.

As would be expected, participants' views about labour arrangements varied quite considerably. However, the predominant view appears to be that there has been a general improvement over recent years and that problems which do exist are generally in the process of being addressed, often in the context of enterprise-based agreements. For instance, the Federation of Industrial Manufacturing and Engineering Employees (FIMEE, transcript, p. 50) stated:

... this industry is not one which has massive labour costs; it is not one beset by industrial unrest. Therefore, if we have security of resource at a reasonable cost it's our submission there is a very good setting, in an industrial sense at least, for development of the industry.

Perceptions about training needs are more uniform: most participants expressing a view consider that, while the industries' commitment to training has increased in recent years, there is a need to improve both management and workforce skills.

Participants' views on these matters are amplified below: first in relation to management and work practices, and subsequently skills and training.

Management and work practices

Participants indicated that there have been significant changes in management and work practices over recent years. Many of the changes have been negotiated in conjunction with modifications to the centralised wage-fixing system. Under the Accord arrangements, wage fixing has been closely linked to workforce reform designed to increase productivity and efficiency. The reforms were initially related to award restructuring under the structural efficiency principle developed in the August 1988 wage case. Among other things, the restructuring involved award modernisation, revised classification structures based on task broadbanding and multiskilling, and the introduction of consultative practices at the enterprise level. A key objective of the reform was to promote skill formation and increase the flexibility of the workforce to reduce costs associated with demarcation issues and outmoded work practices. The restructuring has been facilitated by legislative changes to allow unions to apply for sole coverage of workplaces under Section 118 of the *Industrial Relations Act 1988*. This has encouraged rationalisation of unions. The more recent move to enterprise bargaining has facilitated further change by focussing reforms at the workplace rather than at the award level.

In the forest products industries, there has been some rationalisation of both employer and union bodies. For example, employers established a national body — the Federation of Timber Industry Associations — and the Timber Workers' Union, the Pulp and Paper Workers' Federation, the Building Workers' Industrial Union and other unions amalgamated to form the Construction, Forestry, Mining and Energy Union (the CFMEU). Union rationalisation has also occurred at the plant level. For example, the number of unions at ANM's Boyer mill is in the process of being reduced to two. At one time, there were thirteen unions at the mill.

In the past, there has been criticism of the management of forest products enterprises. For instance, in 1991, the (now) joint secretary of the timber division of the CFMEU stated:

... Australian management practice is generally out of date and inefficient. Managers cling to 'management prerogative'. They actively encourage the retention of 'us and them' attitudes in the workplace.

In a submission to this inquiry, APPM (sub. 38, p. 34) argued that the style of management in Australia has been "paternal and generally individualistic rather than team-oriented". It stated:

[The] necessary change in management style will, by nature, be evolutionary in most cases, but, even if it is revolutionary, there does not appear to be any role that the IC can effectively play to improve or speed up the results.

On the other hand, a number of participants stated that there have been significant changes in management practices. The changes are said to be resulting in increased employee participation in decision-making processes. In this context, FIMEE noted that consultative committees have been established in mills in the south-west of Western Australia. The New South Wales Forest Products Association (sub. 91, p. 6) stated that:

The Federal Timber Industry Award is also unique in that it provided a clear focus for enterprise based consultative committees to vary existing award conditions, on site, and subject to certain conditions, without further reference to the Industrial Commission.

Companies that have negotiated, or are in the process of negotiating, enterprise agreements generally expressed the view that union-employer relations are good. For example, APM noted that over the past four years it has been developing an industrial relations approach in line with its Total Quality Management values, resulting in greater production efficiencies flowing from better trained employees and more tightly-staffed shift operations. APM stated that employee numbers and wage rates for the Australian pulp and paper industry are competitive with producers in other developed countries, although personnel costs per unit of production are higher because of the smaller scale of production. Bunnings also commented favourably on the "very productive" relationship it has with unions.

In contrast, a few participants expressed concerns about employer-employee relationships. For instance, while APPM said that "stunning" results had been obtained at its Wesley Vale mill, it claimed major ongoing difficulties at its older Burnie plant. Developments at this site were said to be hindered by the fragmented union structure, with ten unions vying for members. In discussing its efforts in industrial relations reform, APPM stated that the fundamental problem in Australia is that unions have not allowed management to utilise the flexibility granted under the award.

Similarly, Boral (sub. 40, p. 45) claimed that:

While the timber industry is relatively advanced in labour restructuring there are still significant gains that can be made but union attitudes to issues such as enterprise bargaining are still obstructive.

In some senses, reform of management and workforce practices is more difficult in the forest products industries because of its regional dispersion. As NAFI (sub. 24, p. 36) noted:

In the forest and forest products industries, labour productivity and market factors are exacerbated by the geographic location of the industry. The industries have traditionally been a major employer in regional Australia, and many labour and management practices have become entrenched.

The Commission received no evidence suggesting that there are major problems in management and work practices in the forest products industries. The balance of information available to the Commission suggests that management and work practices are being improved (particularly in larger firms), although the situation clearly varies between and within companies. Given this variability, and the company-specific nature of some of the problems, it is appropriate for negotiations between companies and their workforce to continue.

Skills and training

The general view expressed by participants was that, although there has been increased emphasis on the need for management and workforce training, further changes are still needed:

- many argued that there is a case for more training; and
- some identified weaknesses in government training programs claiming, for instance, that there is a need to improve the scope of training courses and their regional availability.

Industry training needs

There is only limited evidence on the adequacies of skill levels in the various forest products industries. However, a 1990 survey suggests that some skills are in short supply, at least in the hardwood industry. The Forestry and Forest Products Industry Council (1990) reported that 59 per cent of hardwood sawmills were experiencing difficulties in recruiting or retaining labour, with skill shortages being more pronounced for large mills. The survey noted that employee skills and training are vital if the hardwood industry is to increase value adding. It is not clear, however, to what extent the shortage in skills is attributable to the nature of the industry itself (eg it involves relatively hard

manual labour and, for many in the industry, there is no well defined career path).

The National Forest Industries Training Council (NFITC) considers that training needs are being neglected. It stated (sub. 43, p. 1):

... the objective of further value adding to Australia's forest products and the productivity and efficiency of the industry are impeded by a deficiency in education and training for major sectors of the workforce.

It is recognised that the workforce is already highly skilled, however, further development and value adding will be significantly dependent upon the ability of those employed within the industry to adapt to technological and other changes within the industry's internal and external environments.

In responding to the draft report, the Queensland Government submitted that there is a need for the NFITC to develop an overall training strategy. It also identified a need for competency standards to be developed as a basis for developing appropriate training curricula.

Pine Australia (sub. 41, p. 8) argued that the industries must improve their commitment to training:

Industry must work with Unions through the National Forest Industries Training Council to broaden from the present focus on career paths for forest and mill operators, including literacy and occupational health and safety.

CSR Softwoods (sub. 10, p. 6) went further, stating that:

... we are aware that education of our work force at all levels, from machine operator to managers requires improvement.

On the other hand, some producers consider the extent of training to be a less significant problem. For example, APPM (sub. 38, p. 34) stated that:

There are various 'providers' of training modules in this country and managers are frequently confronted with an embarrassing choice of courses, etc. for their employees. Expenditure on training is now substantial.

The availability of training programs

The general types of education and training programs publicly available cover numerous work functions in all forestry and forest products industries. Programs are provided by a range of organisations as indicated by the following sample:

- TAFE colleges throughout Australia offer a range of specialist courses, for example, apprenticeships in saw doctoring in South Australia and New South Wales.

- Two universities have degree programs in forest science; another has a course leading to graduate certificates for middle and technical management in timber merchandising.
- State government departments and agencies conduct several courses, for example, the New South Wales Forestry Commission and the Victorian Department of Conservation and Natural Resources each provide chainsaw instruction.
- Industry bodies and agencies offer a range of programs including: courses for chainsaw instructors at the Victorian Timber Industry Training Centre; timber technology courses at the Institute of Wood Science; a wood science course for managing, supervising and sales provided by the J.W. Gottstein Memorial Trust; diplomas and masters degrees in pulp and paper technology at the Australian Institute of Pulp and Paper Technology; and correspondence courses such as those provided by CSIRO in wood drying.
- Private companies provide a range of courses (eg APM Forests conducts courses on occupational health and safety in forest operations).

Although there is clearly a variety of organisations that cater for training needs, most participants commenting on the issue consider there are deficiencies in the present availability of training programs.

The NFITC stated that there are relatively few education courses specifically servicing those employed in management, line management, supervisory and scientific technical roles. It stated that current initiatives are mostly directed at the operative levels of the workforce, and that management development specifically for the forest industries is largely neglected. According to NFITC, there is a significant disparity in the availability of training courses for those employed at the operative level between industry sectors and between different locations.

The NFITC argued for a greater government role. It stated that the majority of training courses available to the industry are offered by providers other than the publicly funded education system, and that there is a significantly greater range of publicly funded courses and research activities in the areas of ecology, environmental studies and resource management than in the areas of forestry or forest products. Concluding that forest industries are disadvantaged relative to other industries in terms of publicly funded education and training, it called for increased government funding.

Pine Australia (sub. 41, p. 8) claimed:

Government assistance, through established departmental programs and industry training councils, is necessary to achieve an integrated education system which will

develop and attract technical and professional skills into the industry. Government assistance is also required to constrain the competition between education providers to achieve a limited number of 'centres of excellence' rather than a sub-standard array of disjointed facilities. Consequently the terms of reference of industry training councils, which have allowed them to also act as training providers, should be reviewed.

CSR also identified significant shortcomings in the existing training arrangements. It stated (sub. 10, p. 6) that:

The education provided for the forest products processing industry with the exception of pulp and paper seems totally inadequate and disjointed. We have as an industry not been successful in the development of an education structure which will provide an integrated system of education starting with an apprenticeship system for our operators, an education system for first line managers, more commonly called supervisors, to professional education in wood science, processing technology, timber engineering and management.

Expenditure on training by individual firms (over and above the existing statutory requirements) is clearly a matter that should be determined by individual firms (in consultation with their workforce) based on assessments of their needs. However, governments have a role in providing training which is relevant to the needs of a number of firms, or the industries generally. While government funding of training is not open-ended, the forest products industries should not be disadvantaged vis-a-vis other industries.

On the basis of the information available to the Commission, it is not possible to assess whether existing funds are allocated in the most efficient manner: absolutely, geographically, between forest products industries, between management and the workforce, or in other ways. However, given the criticism of the existing training programs expressed by participants, there is a clear need for governments, in consultation with the industries and their employees, to review as soon as possible: future training needs (including management training); the capacity of existing institutions to meet these needs; the level of funding provided; and the allocation of available funds.

8.2 Project and environmental approval processes

Many participants were critical of approval processes for forest projects. In the main, the criticisms echo those made by producers in other industries to a number of other Commission inquiries. The fundamental concern relates to the length of time and the costs involved in securing the necessary approvals to allow investment in new projects to proceed. The major factors said to contribute to delays include the imprecision (or in some cases, non-existence) of guidelines and standards with which new projects must comply, the multiplicity of government agencies from which approvals must be obtained,

overlapping responsibilities between government bodies and different levels of government, and a general lack of coordination of approval processes.

Typical of the sentiments expressed are those of the Institute of Foresters (sub. 5, p. 4):

There are excessive bureaucratic delays in the approval of projects based on forest resources, compounded by requirements to refer proposals to groups in Canberra or in the States who have no sympathy with the utilisation of forest resources. At times it appears they are opposed to any sort of economic activity.

Impediments associated with administrative processes for obtaining approval to establish and harvest plantations and to export logs or woodchips have been considered in Chapter 6. The frustrations appear to be no less in other forest products projects. For instance, the PPMFA (sub. 26, p. 13) stated:

Assessment of the environmental impact of major expansions by way of EIAs is a major chore for industry and can take several years and cost many millions of dollars. If there are unnecessary delays, the ultimate cost may be paid, that is the project is disbanded.

The failure of the Wesley Vale pulp mill project is cited by many as an example of how assessment costs, delays and abandonment all increase the lack of trust in the political process. NAFI argued that the ad hoc nature of decisions affecting approval adversely affects financiers' assessments of expected returns.

Participants gave examples of the delays and costs associated with smaller projects. The principal frustration appears to revolve around environmental approval processes. For example, in New South Wales, in addition to the *Forestry Act 1916*, forestry operations are subject to a lengthy list of environmental controls and protection legislation (see Box 8.1).

The burden of legislation in New South Wales is illustrated by the *Endangered Fauna (Interim Protection) Act 1991* which has added significant requirements for those wishing to harvest timber on private property. The New South Wales Forest Products Association calculated the financial impact of compliance by New South Wales state agencies alone at over \$11 million for the first 20 months of the Act's operation. The Association noted that preparation of Environmental Impact Statements is expected to cost the industry around \$3 million in 1991–92, or around 7 per cent of estimated revenue from hardwood forests. It also referred to the effect of the *NSW Environmental Planning and Assessment Act 1979* which it claimed (sub. 12, p. 7):

... has proved a minefield of litigation, delay, expense and frustration for what would otherwise be 'routine' forest harvesting activities.

Box 8.1 Environmental control and protection legislation affecting forestry operations in New South Wales

- *Clean Air Act 1961* re air pollution, including smoke from controlled burning;
- *Clean Waters Act 1970* re erosion and siltation of water courses;
- *National Parks and Wildlife Act 1974* re endangered fauna;
- *Noise Control Act 1975* re noise pollution;
- *Heritage Act 1977* re preservation of the nation's natural and cultural heritage;
- *Environmental Planning and Assessment Act 1979* re assessment of impact of proposed forest operations on the environment;
- *Wilderness Act 1987* re preservation of wilderness areas;
- *Protection of the Environment Administration (PEA) Act 1991* re operation of the Environment Protection Authority in maintaining ecologically sustainable development;
- *Endangered Fauna (Interim Protection) Act 1991* re faunal impact assessment and associated licence issue, as administered by the National Parks and Wildlife Service; and
- *Timber Industry (Interim Protection) Act 1991* re division of forest areas into areas reserved from logging, areas which must undergo environmental assessment before logging proceeds and areas which are available for logging under normal harvesting prescriptions.

Source: Drielsma (1992).

In Western Australia, under the *Environmental Protection Act 1986*, development proposals are assessed by the State's Environmental Protection Authority, after which appeals to the Minister on the assessment can only be resolved by the Minister confirming the level of assessment, or increasing it. Consequently, outcomes are always skewed against the proponent (ie the presumption is that a project can only have a more detrimental effect than when first considered, never less). This factor, combined with the ability of an interested party to appeal for a nominal fee (\$10), provides an incentive for aggrieved parties to abuse the process by initiating appeals. This could impose only minor costs on appellants, but substantial costs on industry.

The Western Australian Environmental Protection Authority stated that, provided there are no major holdups, approval could be granted to a relatively small project in about 5 to 6 months, but that approval for major projects would take 12 to 18 months. The Authority said that it is developing a publication which details formal guidelines relating to its processes.

Many participants stressed the need to improve intergovernmental coordination, timeliness and consistency, and to remove project assessments from political interference. For instance, the PPMFA (sub. 26, p. 13) stated:

Governments must ensure that the assessment is tightly coordinated between the Commonwealth, State and regional levels, that it is of a definite short duration, is carried out under the principles of ecologically sustainable development using scientific methods, that it is not disrupted for political motives, and that the reasons for rejection, if this occurs, must also be expressed in ESD terms.

NAFI (sub. 24, p. 54) argued that:

Project approval processes are frequently poorly specified, costly, lengthy and highly politicised. There needs to be a 'one-stop' approach to all project approvals that incorporates the three levels of government — similar to the major project's unit announced in [the One Nation Statement].

One approach to facilitate an easier approval process is being tried by the Western Australian Government. It is currently seeking, through the Department of Resources Development, the development of a pulp and paper mill in the south-west of the State. The Government is seeking a proponent which will carry out a detailed feasibility study and commence a substantial hardwood plantation development program. For such a commitment, the Government is offering to work exclusively with the successful proponent for an agreed period to develop the project, assist with the feasibility process and facilitate the necessary approvals to commence operations. The Government will also offer the security of an Act of Parliament once there is a firm commitment to construct the mill.

The Department also acts as a co-ordinating agency for a number of other major forestry and non-forestry projects. In this capacity it liaises with state government agencies such as water and energy authorities about specific projects' infrastructure requirements and also with local governments, regional and local communities to help resolve a range of issues which need to be determined before major projects can proceed (eg the haulage of logs on local roads and local planning issues).

In a submission responding to the draft report, the Queensland Government indicated that it is seeking to ameliorate its complex planning procedures and processes by the establishment of the Office of Co-ordinator General to facilitate major projects, and by the adoption of streamlined approval processes and simplified planning appeals.

Improved approval processes were embodied in the Pulp and Paper Industry Package announced by the Commonwealth in December 1989 to assist the development of a viable bleached eucalypt kraft (BEK) pulp industry in Australia. The Package included a program of research into pulp production, bleaching technologies and environmental impact minimisation. It also included a commitment to negotiate with the states on joint Commonwealth/State environmental assessment arrangements for future BEK pulp mill proposals to

enable simultaneous consideration of approval issues. Agreements have been signed with several states.

The Package establishes clearly defined assessment processes for prospective BEK pulp mills — albeit involving a considerable period of time (72 weeks for the environmental impact statement and the social, economic and community impact statement). Together with the time for government decision-making and actual construction, there is a minimum of five years between the decision to invest and the first pulp sale. There is not ‘fast-tracking’, but there is more certainty.

While the Commonwealth’s guidelines pertain only to BEK pulp mills, the NFPS (1992, p. 17) indicates that the improved coordination processes between the Commonwealth and States contained in this approach are to be offered to developers of other major forestry projects:

... Governments will cooperate to offer to proponents of major projects a streamlined and coordinated Commonwealth-State project-assessment process in instances where the Commonwealth has a statutory obligation in relation to that project. This process will include agreed periods within which the governments’ requirement for environmental impact assessments will be agreed.

The Commonwealth Department of the Environment, Sport and Territories (sub. 80, p. 5) stated that:

A concerted effort is currently under way to address some of the perceived shortcomings of the current process of environmental assessment.

The Department noted that the Commonwealth Environmental Protection Agency is currently preparing a comprehensive operational manual to show how Environmental Impact Assessments are undertaken by the Commonwealth. It noted that the manual will “also confirm the practice of getting early agreement with proponents on time schedules for all stages of the assessment process”.

The processes required to be followed by developers to gain approval for forest products projects are frequently costly, time-consuming and confusing. Improved coordination measures in some states (eg Western Australia) and recent Commonwealth initiatives will help overcome some problems. However, governments need to introduce further measures to reduce uncertainty and remove inefficiencies associated with all approval processes, including those applicable to smaller projects. This would require government action to:

- *clarify the requirements with which project developers must comply;*
- *more clearly specify the assessment criteria; and*

- *review administrative procedures to improve coordination and avoid the possibility of duplication and overlaps between different government agencies that must be consulted to gain the necessary approvals.*

The latter problem could, in principle, be addressed by the 'one-stop' concept employed by some governments.

8.3 Government measures to encourage paper recycling

Many governments wish to encourage recycling of paper. While the objectives have not always been explicitly stated, most initiatives appear to reflect desires to promote sustainable management of wood resources and, more commonly, to minimise waste and reduce landfill. For example, in June 1992, the Commonwealth Government's national waste minimisation and recycling strategy gave a commitment to reduce the total quantity of solid waste going to landfill by 50 per cent by the year 2000 (based on weight per capita using a 1990 base). Similarly, Victoria has established the Recycling and Resource Recovery Council to "support and facilitate the reduction, avoidance and recycling of wastes with the goal of reducing waste to landfill by 50 per cent by the year 2000". Other state governments, including those in New South Wales, and Western Australia, have also established landfill reduction targets.

Participants identified three types of government intervention which are intended to encourage paper recycling:

- sales tax exemption for certain recycled paper types;
- recycling targets; and
- government procurement policies prescribing purchase of recycled paper.

To facilitate later discussion of these concerns, the extent and nature of recycling in Australia is briefly outlined in the following section.

Extent of recycling

In 1991–92, 1.015 million tonnes of wastepaper was recovered, of which 43 000 tonnes was exported, and 24 000 tonnes was used by other industries, leaving some 948 000 tonnes being consumed by the Australian paper industry. With total paper consumption being 2.756 million tonnes, this equates to a recovery rate of 36.8 per cent. About 60 per cent of the wastepaper consists of packaging materials, about 25 per cent is printing and writing papers and the remaining 15 per cent is used newsprint.

According to the PPMFA, most wastepaper is collected from industrial sources. Kerbside collections account for less than 20 per cent of Australia's recycling

feedstock. Just under 50 per cent of packaging paper is recovered, most of which is reprocessed into new packaging products. The recovery rate for printing and writing papers is lower at 28 per cent. The newsprint recovery rate is about 26 per cent, a significant proportion of which is exported.¹ No tissue products are recovered, but some high quality printing and writing papers are reprocessed into tissue papers. Some printing and writing papers and used newspapers are also reprocessed into packaging. For packaging, the consensus is that Australia is close to the economic limit for the use of recycled pulp.

In 1987–88, Australia's utilisation rate was 36 per cent.² This was lower than the rate for Japan, the Netherlands and West Germany, but above the United States. Although somewhat dated, Table 8.1 shows that Australia's utilisation rates for wastepaper used in packaging and in printing and writing papers are high by world standards. The contrary is true in newsprint and in tissue production.

Table 8.1: Wastepaper utilisation rates for major paper product groups, 1987–88
(per cent)

<i>Product group</i>	<i>Australia</i>	<i>West Germany</i>	<i>Western Europe</i>	<i>USA</i>	<i>Japan</i>
Newsprint	0	50	25–30	20–25	45–50
Printing/writing	6	4	3	6	14–15
Tissue paper	1	25	40	30	na
Packaging/industrial	68	90	65–70	30	65–70

Source: IC (1991d, vol. 2, Table 4.1).

While its definition differs from that used by the Commission to compile data for 1987–88, the PPMFA reported that, in 1991–92, the Australian utilisation rate was 45.7 per cent. The PPMFA (1993) stated that:

With planned industry projects to increase recycling, it is expected that wastepaper usage will exceed 50 per cent of the production of paper by 1995.

¹ Manufacturers' proposals could raise the recovery rate for old newspapers to about 55 per cent on the eastern seaboard.

² The utilisation rate is the amount of secondary fibre (recovered fibre) used in the manufacture of paper, expressed as a percentage of the total fibre used.

Sales tax exemption

Exemption from wholesale sales tax for certain papers made wholly from recycled fibre took effect in October 1989 with the aim of increasing domestic wastepaper usage.

Several manufacturers argued that such exemptions are not an efficient way to encourage recycling because they distort product markets by diverting waste materials into less productive uses, encourage imports and misallocate capital. For example, the PPMFA (sub. 26, p. 17) described the exemption as a “classic example of misallocation of resources” because of the way in which it led to dramatically increased imports of tissue and packaging papers manufactured from wastepaper. APM (sub. 44, p. 17) claimed that the exemption failed to take account of the substantial difference between available volumes of different wastepapers and the long lead times in developing wastepaper supplies. In the event:

... imports of so-called 100% recycled bag papers increased dramatically. ... To compete, domestic manufacturers attempted to produce a 100% recycled bag paper. White waste was in limited supply and APM therefore had to import high cost white waste from overseas. This made [local] production uncompetitive and hence threatened the closure of domestic [bag paper] operations.

According to participants, the exemption favoured imported products that have no potential for further recycling (eg tissue paper), disadvantaged the use of papers with significant — but less than 100 per cent — recycled content, and did nothing to encourage greater recycling of newsprint — a major contributor to landfill waste. In addition, administrative difficulties were said to have arisen because, first, there was no way of testing manufacturers’ claims as to recycled content and, second, there was no consistent definition of what constitutes recycled fibre.

Following representations from local paper producers, the exemption was removed in June 1992 from facial and toilet tissue, certain books of paper such as exercise books, and paper bags. However, the exemption remains for writing, drawing or printing paper, pads of writing or drawing paper, paper for use in accounting ledgers or journals, and envelopes. With the removal of the exemption, the Commonwealth Government is making available financial compensation (“transitional assistance for three years ... effected by way of special purpose payments to the relevant state governments, for passing on to the producers”) for particular firms that made investment decisions following the announcement of the exemption.

Recycling targets

Paper products comprise a considerable proportion of the solid waste stream in Australia. Consequently, there have been various legislative moves to set voluntary targets for wastepaper recycling through agreements requiring collection of minimum proportions of wastepaper or by mandating minimum recycled fibre content in paper products.

In many countries, there has been particular pressure to increase newsprint recycling levels. For example, in the USA, over half the states have mandatory old newspaper collections and twelve states have legislated minimum recycled fibre content in newsprint.

In Australia, the Tasmanian Government's draft recycling and solid waste management policy calls for no less than 55 per cent of newsprint to be recycled. Similarly, in Victoria, a 1992 report prepared for the (then) Victorian Government by a body comprising Cabinet Ministers, business representatives and senior trade union representatives (the Fibre Processing and Sustainable Development Jobs Council) recommended that the Government investigate legislating for a requirement of 50 per cent average secondary fibre content for all newsprint sold in the State.

Government procurement policies

In December 1992, the Commonwealth Government announced that, in order to encourage waste minimisation and ecologically sustainable management of paper fibre resources in Australia, it would set targets for the use of recycled and other "environmentally preferred" paper products by Commonwealth agencies. These targets will have to be progressively met by 1995–96. By that time, 90 per cent of certain paper products purchased by Commonwealth agencies will have to meet these targets.

In July 1993, the Government announced that, in close consultation with industry, community groups and unions, specific scientific criteria would be developed for environmentally preferred paper products under three broad categories. The categories appear consistent with a definition recommended by the Commonwealth Environment Protection Agency:

Environmentally preferred papers are those able to demonstrate advantages in one or more of the following aspects of the product's life cycle - resource sustainability (includes recycled content - level of which must be stated if fibre resource not entirely post consumer waste), reduced energy use and reduced pollution (includes emission to air, water and land).

APPM (sub. 70, p. 15) argued that, under this broad definition of “environmentally preferred” paper products, “virtually every sheet of paper produced in the world” would satisfy the criteria.

APM claimed that requirements for government agencies to use paper with a high recycled fibre content can conflict with the objective of improving international competitiveness. It stated that, in order to compete on the international copypaper market, Australian manufacturers will have to produce high brightness paper, in which the maximum percentage of recycled fibre will be limited to around 20 to 30 per cent. APM (sub. 44, p. 16) stated that, if government purchasing requirements specify a higher recycled fibre content (and thus lower brightness), there would be a number of adverse consequences:

- a. ... the cost competitiveness of producing such papers on a new machine would be substantially poorer than the production of higher quality papers. Australia already has, and can build on, its natural competitive advantage of low cost eucalypt plantation wood.
- b. An artificial market which forces the purchase of papers from ‘favoured’ suppliers will encourage uncompetitive pricing.
- c. Recycled newspaper will be shifted to the production of poor quality fine papers when it would be more efficiently used in the production of recycled newsprint and as fillers for packaging papers.
- d. Capital will be misdirected to capacity expansions which will hinder and delay the development of truly internationally competitive paper production based on Australia’s natural competitive advantages.

In contrast, APPM supported intervention through government procurement policies. APPM said that it has been actively encouraging the Commonwealth Government to enter into binding contracts for the purchase of recycled paper from a new plant that it was proposing to construct at Shoalhaven. It also expressed dissatisfaction at the current situation where contracts can be obtained with the Commonwealth Department of Administrative Services, but individual government departments are not obliged to purchase under these contracts. APPM (sub. 70, p. 16) claimed that:

... consistent advice from Government is that such a contract would not be achievable and we were advised by Government that the policy route would be the only mechanism available that could help establish some security with regards to an initial market for the paper from the Shoalhaven project.

Assessment

The Industry Commission has previously inquired into paper recycling. In its interim report on paper recycling, the Commission (IC 1990) concentrated not

on whether paper recycling rates could be higher, but on whether the Australian community would be better off if recycling rates were higher.

While the interim report found that there was widespread community support for recycling, it argued that, if governments wish to encourage paper recycling, they should focus on solving impediments to additional recycling rather than on addressing symptoms of the problems. For instance, the Commission (IC 1990, p. 10) concluded that:

Governments can best assist paper recycling by attention to the pricing and management of forests and the pricing of waste disposal, and by ensuring that there are no undue impediments to information about recycled products.

This argument was based on theoretical grounds in addition to the many practical considerations examined during that inquiry. Among other things, the Commission found that:

- paper recycling has been undertaken for some period of time and, therefore, there exists a keen demand for high quality wastepaper;
- to the extent that a ‘paper mountain’ exists, it contains the lower grades of paper (eg old newspapers and magazines) which have limited ability to produce widely useable printing and writing papers and which were being used to the fullest extent possible in packaging;
- unlike metal recycling, there are limits to which recycled waste paper can be substituted for virgin pulp before the performance of the paper product is reduced — these limits stem from the initial fibre source and pulping process as well as from the degrading of fibres during reprocessing; and
- while recycling involves some benefits (eg it reduces the need for landfill), it also involves other costs (eg transportation and sorting) which also have environmental implications.

During the course of this inquiry little evidence was produced to dispute the findings of the Commission’s previous reports. Moreover, as reported above, the evidence presented to this inquiry highlighted the inadequacies and unintended consequences of existing government strategies involving each of the three measures designed to encourage paper recycling. For example:

- Sales tax exemption for selected papers may result only in the available recycled fibre being shifted from its traditional use to those papers eligible for the tax exemption and/or increased imports of recycled paper or pulp. Significant administration costs are also likely to be incurred.
- Recycling targets, be they mandated or voluntary, are problematic: it is very difficult to measure the achieved level of recovery, let alone define the appropriate efficient target level. These practical problems are

compounded if, as is likely, it is appropriate to determine different targets for different regions.

- Procurement policies that favour papers with a high level of recycled fibre, like sales tax exemptions, may result only in a change in the way in which recycled fibre is used and, as indicated by APM, can undermine initiatives to improve competitiveness and lead to higher import levels. The recent Commonwealth initiative in adopting a broader perspective encompassing the notion of “environmentally preferred” papers may overcome this problem, but it presents significant administrative difficulties and its application is likely to require a considerable degree of subjective assessment.

On the basis of the information provided in this inquiry, the Commission considers that the findings of its earlier inquiry into recycling are still valid. The Commission’s final report on recycling (IC 1991d, vol. 2, p. 114) concluded:

... attempts by governments to coerce manufacturers and consumers to change their behaviour through discriminatory purchasing policies, tax concessions, or mandated or ‘voluntary’ targets would merely compound inefficiencies. Such policies can have the perverse effect of increasing costs to traditional paper recyclers, and increasing imports of recycled paper and perhaps of pulp.

The use by government of sales tax exemptions, mandatory recycling targets and procurement policies to increase recycling levels is inefficient and is likely to impede efficient industry development. The Commission considers that:

- *the remaining sales tax exemptions for recycled paper products should be removed;*
- *compulsory recycling targets should not be introduced; and*
- *government procurement policies should not discriminate between papers on the basis of their fibre content.*

It is appropriate, however, for governments to address factors which may retard the efficient use of recycled paper (eg review municipal waste disposal charges to ascertain whether they reflect the true cost of landfill).

At the draft report hearings, the Australian Conservation Foundation argued that since recyclers acquire waste paper at no cost (ie costs are related to collection and sorting), an increase in landfill charges would not reduce the cost of recycled fibre and, therefore, would not stimulate the further use of recycled fibre in paper production. The ACF advocated the retention of existing tax concessions and/or the imposition of taxes on paper producers which use virgin fibre.

There are a number of ways in which such a tax could be imposed on paper manufacturers in order to meet disposal costs. For instance, the tax could be imposed on:

- all paper and paper products. While this may reduce the demand for paper, as well as the amount of waste paper going to landfill, it is unlikely to alter the mix of virgin/recycled fibre used in paper production.
- paper and paper products which do not contain 100 per cent fully recycled fibre. Such a tax would be similar to the existing tax concessions which, as indicated above and expanded upon in the Commission's recycling report (IC 1991d), introduce inefficiencies by distorting the production processes, discriminate against less than fully recycled papers and are administratively costly to police.
- the production of virgin pulp. While such a tax would overcome some of the problems associated with the other two options (ie it would encourage producers to substitute recycled fibre for virgin fibre as well as reduce the overall demand for paper), it may be difficult to determine the value and the volume of the virgin pulp used in vertically integrated pulp and paper making operations where the transfer of the pulp is internal to one company.

The introduction of waste disposal charges which better reflect disposal costs would avoid the inefficiencies associated with product taxes. Furthermore, as households and firms would be required to pay directly for the removal of waste, they may also be willing to pay recyclers to remove used paper and other materials. In these circumstances, there would be an increased incentive to use recycled fibre since the net cost of collecting paper would be reduced.

8.4 Building codes, product standards and quality assurance

Several participants raised concerns about building codes and product standards. One participant argued that, because standards and codes favour traditional materials over new ones, the rapid and orderly substitution of hardwood timber by softwood has been impeded. However, the major concern of participants was that the current building codes and regulations unnecessarily restrict demand for sawn timber as a whole. For example, Mr G Nolan (sub. 23, p. 8) stated that:

The negative effects of statutory codes on the acceptability of wood products is documented as early as 1935. At the time, many local government authorities regulated against timber housing as it was regarded as unhealthy and a fire hazard. This indicated a general bias against wood as a satisfactory construction material. This bias has continued for varying reasons in Australia's codes and building regulation to this day.

Building codes

NAFI stated that the Building Code of Australia contains significant barriers to the use of timber products. NAFI referred to building codes in North America, Europe and New Zealand that permit the use of wood in three-storey medium-density residential construction. Under the existing Australian Code, similar timber-framed construction of multi-storey dwellings is not permitted. NAFI argued that, as a result, a major opportunity for the expansion of the Australian timber market is lost. NAFI claimed that the use of timber in construction of three-storey, timber-framed apartment buildings would open up an additional market estimated at around \$150 million. (This would, of course, be at the expense of domestic suppliers of substitute materials such as concrete and steel.) NAFI stated that:

Indications are that timber-framed buildings will be about 10 per cent cheaper than masonry or concrete buildings, creating benefits for consumers and the nation through increased affordability and variety in housing, particularly in relation to medium density housing and urban consolidation policy initiatives.

Pine Australia (sub. 41, p. 7) reported one effort of industry to reform existing standards:

As a specific strategy, a comprehensive submission based on research, computer modelling and international practices is currently being prepared for multiple-occupancy three-storey timber-framed units as a first step in seeking the removal of combustibility prescriptions against the wider use of timber framed construction.

The Queensland Government stated that the Australian Uniform Building Regulations Coordinating Council (AUBRCC) has proposed that relevant research be undertaken into the embargo applying to the use of combustible materials in construction.

Participants at the initial round of hearings suggested that biases against the use of timber could also be overcome by the replacement of existing 'prescriptive' regulations by material performance standards (as adopted in New Zealand).

A performance-based approach would allow the use of any material, provided that it meets prescribed standards relating to, say, strength and combustibility. Performance-based standards would allow industry the flexibility to determine the most cost-effective manner of conforming with the specified standard, without constraining technology and ingenuity. This contrasts with regulations which specify how a required standard is to be achieved. Specifying a standard in this manner may exclude particular materials, even though they perform the task as well as, or better than, the material specified in the standard.

In its response to the draft report, the Queensland Government noted that, while the existing Building Code of Australia is largely prescriptive, it anticipates that every provision will be performance-based by the end of 1994.

Product standards

A number of participants expressed concern about product standards for timber products. According to participants, there are not clearly defined size, moisture content or appearance standards, and there is a lack of conformity in some products (eg architraves and skirting boards).

Pine Australia (sub. 41, p. 7) claimed that the timber industry accepted the need and responsibility for the review and development of timber standards, stating that:

Australia's standards for design and use of timber must match those for competitive materials and marry with international developments.

The alignment of Australian standards with international standards would facilitate the entry of Australian timber producers into export markets, reduce the range of standards to be complied with, and eliminate potential non-tariff barriers to trade.

Quality Assurance

Several participants commented on quality assurance standards and procedures. Some, such as Mr G. Nolan (sub. 23, p. 24), argued that acceptable quality control is a major problem in the timber industry. He noted:

... the timber industry cannot control its material or its market, while its competitors (steel, aluminium and, to a lesser extent, concrete) all can.

NAFI argued that there has been an accelerating involvement in quality assurance standards given the need for international competitiveness. Pine Australia noted the need to maintain the timber industry's record in quality assurance in relation to the structural properties of timber. It stated (sub. 41, p. 8) that:

The establishment of the Joint Accreditation Scheme for Australia and New Zealand (JAS-ANZ) provides a good framework for the development of certified quality management or product certification systems.

As well as coordinating and administering accreditation of those certifying quality assurance, JAS-ANZ pursues appropriate harmonisation with international standards.

At the firm level, it appears to be becoming more common for individual producers to pursue quality assurance programs. For example, Boral is seeking

to have all of its operations quality assurance accredited under AS 3902 (“Quality systems for production and installation” — a standard consistent with the International Standards Organisation (ISO) 9000 series of quality management standards).

NAFI (sub. 24, p. 41) expressed concern at governments’ preference — exercised through procurement policies — for products that meet internationally recognised quality assurance standards such as the ISO 9000 series, describing it as:

... an attempt to drive industries towards quality practices without regard for market forces or industry characteristics. Governments must recognise that their actions can distort market mechanisms, which may result in suboptimal social outcomes.

NAFI claimed that this over-prescription of standards in purchasing policies results from ignorance and confusion and, in some cases, deliberate policy. It also stated that applying the ISO 9000 series standard to certain parts of the industry (eg Australian trucking operations or sawmilling) was neither necessary nor efficient.

Assessment

Building codes should be reviewed to ascertain whether there are still grounds for restricting the use of timber in multi-storey structures. Standards for timber design and use ought to be performance-based, developed in a timely manner and be harmonised with international standards where appropriate. Quality assurance should essentially be an issue for individual producers and users.