



**INDUSTRY
COMMISSION**

**ADDING FURTHER VALUE TO
AUSTRALIA'S FOREST PRODUCTS**

REPORT NO. 32

15 SEPTEMBER 1993

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15 September 1993

Honourable George Gear MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

In accordance with Section 7 of the *Industry Commission Act 1989*, we have pleasure in submitting to you the report on *Adding Further Value to Australia's Forest Products*.

Yours sincerely

Bill Scales
Chairman

Neil Byron
Associate Commissioner

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ABBREVIATIONS

Main abbreviations used in this report are listed below:

ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ANM	Australian Newsprint Mills Limited
APM	Australian Paper Manufacturers
APPM	Associated Pulp and Paper Mills
ASIC	Australian Standard Industrial Classification
BEK	bleached eucalypt kraft (pulp)
CALM	Department of Conservation and Land Management (Western Australia)
CFMEU	Construction, Forestry, Mining and Energy Union
CIS	Commonwealth of Independent States
CRC	Co-operative Research Centre
CSO	community service obligation
EC	European Community
ESD	ecologically sustainable development
FAFPIC	Forestry and Forest Products Industry Council
FAO	Food and Agriculture Organisation
FIMEE	Federation of Industrial, Manufacturing and Engineering Employees
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GERD	gross expenditure on research and development
IAC	Industries Assistance Commission
IC	Industry Commission
LVL	laminated veneer lumber
LWC	light weight coated (paper)
MDF	medium density fibreboard
NAFI	National Association of Forest Industries
NFITC	National Forest Industries Training Council
NFPS	National Forest Policy Statement
NPAC	National Plantations Advisory Committee
OECD	Organisation for Economic Co-operation and Development
PPMFA	Pulp and Paper Manufacturers Federation of Australia
PSA	Prices Surveillance Act
R&D	research and development
RAC	Resource Assessment Commission
TPA	Trade Practices Act

TERMS OF REFERENCE

Adding further value to Australia's forest products in the woodchip, sawn timber, plywood and panel, pulp, paper and paper packaging industries

INDUSTRY COMMISSION ACT 1989

I, JOHN SYDNEY DAWKINS, under Section 7 of the Industry Commission Act 1989:

1. refer as an Industry Development reference, the potential for adding further value to Australia's forest products in the woodchip, sawn timber, plywood and panel, pulp, paper and paper packaging industries, for inquiry and report within twelve months of receiving this reference (though the Commission may give consideration to providing a series of reports if it is impractical to report within twelve months on the entire range of the above industries);
2. specify that in making its recommendations the Commission aims to improve the overall economic performance of the Australian economy;
3. request that the Commission report on:
 - (a) emerging trends in local and global markets for the industries;
 - (b) the current structure and competitiveness of the industries (including cost structure and potential cost savings);
 - (c) the potential for further development of the industries - including strengths and weaknesses, export potential and import replacement potential - and the time frame for likely development under current circumstances;
 - (d) any measures which could be undertaken to remove impediments or overcome constraints to the efficiency, growth or export development of the industries, in ways that are consistent with the principles of ecologically sustainable development and efficient resource use in the economy taking account of the polluter pays principle (covering such issues as regulation, market structure, workforce skill, property rights, or economic, budgetary, industrial, environmental, technological, social, or other factors): and
 - (e) the effects on the industries, and the economy in general, of any measures recommended by the Commission;
4. request that, where appropriate and without disclosing material provided in confidence, the Commission report on examples of past success and failure in the industries, both in Australia and elsewhere, by way of case study or other means;
5. request that the Commission quantify the extent of any assistance provided to the industries, identify if it is offered in a discriminatory manner within the industries and report on ways in which:
 - (a) that assistance could be better used to promote the long term development of the industries and economy; and
 - (b) the costs of adjusting to lower levels of assistance can be minimised; and
6. specify that the Commission have regard to the established economic, social and environmental objectives of governments.

John Dawkins
18 September 1992



OVERVIEW

Increasing demand during the 1990s will provide growth opportunities for Australian producers of forest products in both the domestic and export markets. Immediate steps must be taken to improve Australia's international competitiveness to enable local producers to fully exploit these emerging opportunities. This will require on-going actions by governments to improve competitiveness and the attractiveness of Australia for new forestry investments, as well as initiatives by companies to lower processing costs and develop products that match changing market needs.

This report responds to one of the first of the Government's new industry development references. The references are intended to provide opportunities to investigate growth prospects, as well as to expose impediments to improved performance.

Market conditions

As major world economies emerge from recession, there will be growing opportunities for producers of forest products during the remainder of the 1990s. Fuelled by increasing industrialisation in developing nations, rising construction activity and further expansion in the stock of automated office equipment, world demand for forest products is likely to continue to outstrip growth in economic activity generally.

Growth is likely to be particularly strong in Asian countries. Consumption of forest products by Asian countries has increased steadily over the last decade. Nonetheless, per capita consumption of wood and paper products in the region is substantially below that of western nations (eg per capita consumption of paper products in Indonesia is only 8 kg compared with over 300 kg in the US). Although there has been some expansion in processing capacity in Asian countries, the region's reliance on imports has increased. In 1991, imports of wood and paper products by Asian countries amounted to \$25 billion, while exports totalled only \$14 billion.

Demand in Australian markets is also expected to grow. With imports well established in most market segments, market growth will provide opportunities for both Australian and foreign suppliers.

While demand for forest products is expected to increase, the capacity of some major exporting countries to satisfy demand may be limited. For example, log prices in the United States have escalated rapidly over the past two years or so.

Much of the increase has been attributed to the curtailment of logging activity in the Pacific north-west region surrounding the habitat of the northern spotted owl. Reductions that will be required in other regions in order to reduce felling to sustainable levels will further increase the pressure on log prices. Similarly, in Canada, the availability of wood — and, hence, log prices — is likely to be affected by government decisions to set aside additional areas of forest for conservation purposes and to ensure that forest resources are managed on a sustainable yield basis. These factors will reduce both the competitiveness and the capacity of the United States and Canada — the world's two largest exporters of forest products — to satisfy demand in Asia and other international markets.

Diminishing availability of wood is also likely to reduce the supply capacity of some traditional Asian producers — such as Malaysia, the Philippines and Thailand. The lower volumes of wood available in these countries reflect more stringent government restrictions on logging and on exports, as well as high levels of felling over past years.

While reduced wood availability in many traditional supplying nations will create growth opportunities for Australia's forest products industries, it will also stimulate new investment in other countries. There is already significant new capacity under construction in developing countries such as Indonesia, Brazil and Chile which will help meet the expected shortfall by traditional supplying nations. At this stage, it is not clear whether projects presently under way — and other projects still in the planning stage — will fully compensate for falling supply capacity in other countries.

Factors affecting future development

Considerable differences between firms and regions — as well as in the nature of processing operations, the products and the markets served — complicate assessments of the future potential for Australia's forest products industries. Nonetheless, it is possible to identify a number of factors common to most wood processing activities which will help shape the industries' future development.

Some factors appear to be 'strengths' which will generally assist Australian producers to improve their competitiveness. These include:

- *wood resources:* Australia is fortunate to have ample land and climatic conditions well suited to growing trees. There is an expanding hardwood and softwood plantation estate. Increasingly, public forests used for wood production are being managed on a sustainable yield basis, with wood harvesting being governed by established environmental codes. Many other producing nations do not have similar measures in place. This could

diminish the future availability of wood in those countries and, in some instances, reduce international demand for their products (eg rainforest timbers).

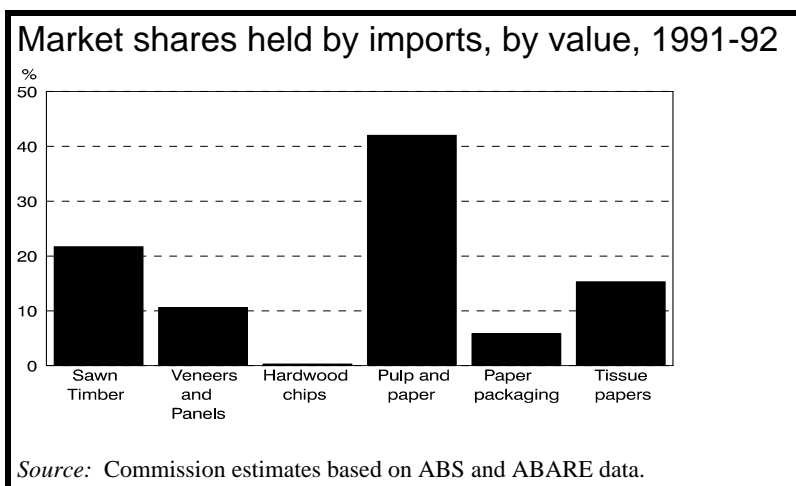
- *labour resources*: significant labour market improvements have been achieved, or are in train. They have increased the flexibility of the workforce and improved labour productivity. Some larger producers now claim that workplace arrangements (and costs) in Australia compare favourably with those in other leading developed nations (eg the United States and Canada).
- *proximity to Asian markets*: although most processing plants are located in southern regions of Australia, local producers are closer to growing Asian markets than are most other major trading nations (eg North American and Scandinavian countries).
- *political stability*: Australia offers investors a stable political environment in terms of national security and economic management compared with some alternative locations.
- *scope for import replacement*: in many market segments, imports hold a significant

market share (see Box). For many forest products, this creates considerable scope for expansion in a market which is sheltered, to varying degrees, from

competition by tariff assistance and international shipping costs. Additional advantages accrue to those products where it is beneficial for suppliers to be located in close proximity to users (eg because delivery times are shorter and order sizes can be smaller).

The advantages which these factors bestow on local wood processing industries have to be weighed against a number of other elements (ie ‘weaknesses’) which reduce the ability of Australian producers to compete against their overseas counterparts. These include:

- *resource security*: domestic producers perceive limited resource security and dwindling access to native hardwood resources as major obstacles to



investment in new projects that rely on wood supplied from public native forests.

- *small domestic market*: for many products, the relatively small domestic market restricts opportunities to install plant of world scale to those ventures able to sell profitably a large proportion of the additional output on international markets.
- *high input costs*: chemical costs are high by international standards while, in some regions, wood and energy costs are somewhat higher than those in some (but by no means all) major producing nations.
- *transport costs*: inefficiencies in internal transport, coupled with high international shipping costs, negate much of the advantage that Australia stands to gain because of its proximity to Asian markets. They also reduce, or in some cases offset, the transport cost advantages Australian producers should have in supplying more distant domestic markets.
- *industry structure*: although some rationalisation is occurring, in most regions the hardwood sawmilling sector remains fragmented. The majority of mills have limited capacity to: take advantage of scale economies; to finance new investment; and to develop more sophisticated marketing techniques.

Two additional factors, which are more appropriately considered as threats rather than as weaknesses, could also impede the future development of Australia's forest industries. First, large expansions of capacity are under way or planned in some developing countries (eg there is a possibility of six new pulp mills in Indonesia). Second, in some countries, producers benefit from relatively high levels of government assistance. High levels of assistance provided by overseas governments reduce both the access and competitiveness of Australian producers in international markets. They also assist our competitors to compete in Australian markets.

The competitiveness of Australia's forest products industries

The international competitiveness of most industries appears to have improved since the mid-1980s. Although modest relative to total domestic production, exports have generally increased. In the face of declining tariff protection, local producers' market shares in major product categories have been maintained. Analysis of the comparative costs of Australian and overseas producers confirms that improvements have been achieved in a number of sectors.

Product categories in which Australia appears to be most competitive and those in which competitiveness appears least are shown in the opposite box. The categorisation is broadly based and needs to be interpreted with care. It does *not* imply that (say) *all* woodchip operations are internationally competitive, or that *all* Australian production of sawn hardwood and of

Competitiveness of Australia's forest products

Most competitive sectors

- hardwood woodchips
- particle board
- packaging and industrial papers
- hardwood pulp

Least competitive sectors

- hardwood plywood
- sawn hardwood
- commodity printing and writing papers

printing and writing papers is uncompetitive. Some local woodchip operations may compare poorly with international suppliers. Similarly, certain printing and writing papers (eg specialty papers) and sawn hardwood (eg higher value products targeted at niche markets) may be highly competitive.

Although competitiveness has improved, the available information suggests that on-going improvements will be required if the increases in competitiveness are to be translated into higher levels of output and/or a greater degree of processing in Australia. Many of the measures available to improve competitiveness in Australia are also available to overseas competitors. Consequently, the challenge is not just to improve efficiency and competitiveness: it is to improve at a rate beyond that achieved by our competitors.

How can competitiveness be improved?

Many of the measures required to improve performance need to be undertaken by the firms themselves. However, governments play a far more significant role in shaping the development of Australia's forest product industries than they do for most other industries. Consequently, improvements in competitiveness are contingent on actions by both industry and government.

Industry strategies

The considerable diversity among firms and products in Australia's wood processing industries implies that there is no common strategy for increasing competitiveness. In practice, strategies will vary between firms (and, in some cases, between products within firms) according to the circumstances of each firm and its perception of market conditions. The optimal strategy for one producer may be totally inappropriate for others, even if they produce identical products.

For most firms, improving competitiveness is not simply a matter of lowering costs. The optimal development strategy is more likely to comprise a 'package' of measures that seeks to increase market acceptance of a firm's products, as well as lowering processing and input costs. Components of the package will reflect the potential gains from a wide range of possible initiatives such as: improving process technology; increasing utilisation or scale of plant; improving management and workforce skills and practices; developing new products and new markets; and introducing new marketing strategies.

An additional measure which is integral to many firms' future strategies is the development of programs to improve product quality and to ensure that products are appropriate to users' needs. In this context, many in the industries consider they can no longer afford to be 'supply driven', and that a more market oriented philosophy is needed to promote competitiveness and growth.

The role of governments

The competitiveness of the forest products industries is closely linked to the performance of governments. Governments are major suppliers — and in some cases the sole suppliers — of important inputs such as wood, energy, rail and port services. They also provide essential infrastructure (eg roads) and regulate (or otherwise oversight) many facets of the industries' operations (eg the development of new projects, the export of logs and woodchips, and the level of environmental emissions). Given this high level of involvement, it is clearly *not* feasible to lift performance to the maximum possible extent unless governments also become internationally competitive.

The performance of Commonwealth and, in particular, State Government agencies which impact on the operations of the forest products industries needs to be improved. Many factors which are directly controllable by governments are presently detracting from, rather than enhancing, the industries' competitiveness.

If the international competitiveness of Australia's forest products industries is to increase, and the available growth opportunities are to be fully exploited, it is essential that governments take *immediate* steps to address existing shortcomings. To their credit, governments have been introducing reforms that will increase competitiveness (eg in some states, significant progress has been made in improving the efficiency of forest management agencies and government bodies which service the forest industries, such as electricity authorities). However, the extent and pace of change vary considerably. Prompt action by governments could eliminate or substantially reduce existing inefficiencies in many areas within the next one or two years.

The most important area of change relates to government involvement in wood supplies. Measures necessary to support the commitments made by governments in the National Forest Policy Statement (NFPS) to improve resource security need to be put in place as soon as possible. To improve the efficiency of wood production and to reduce the scope for government intervention, publicly owned plantations should be privatised. In addition, government bodies responsible for the management of public native forests used for wood production should be corporatised. The work required to implement these changes needs to commence immediately.

Export controls on logs and woodchips restrict export market development opportunities. Perhaps more importantly, they also undermine the viability of other wood processing activities by reducing the cost savings available from integrated logging and processing operations. Some perceive the export controls as a means of pursuing environmental objectives. However, environmental objectives are more efficiently addressed by measures which impinge on all logging operations (eg codes of logging practice), not just logging operations associated with the production of logs and woodchips destined for export markets.

The Commission has been unable to identify any benefits associated with the present export controls. Wood is left to rot on the forest floor: royalties and export revenues are forgone. All export controls should be abolished immediately. This action, in conjunction with the implementation of the initiatives outlined in the NFPS, would provide a clear and unambiguous signal to local and foreign investors of Australia's commitment to the development of viable forest products industries.

It needs to be recognised that the removal of the current export restrictions would not preclude Commonwealth Government involvement at some future time. The powers provided the Commonwealth under the Constitution to control exports would allow it to intervene at any time should it determine such action necessary.

Governments can also improve the forest industries' competitiveness by accelerating the pace of reform of the electricity and gas industries, and of government instrumentalities responsible for the provision of transport services and associated infrastructure. Governments also need to revamp environmental and project approval processes to eliminate problems posed by the existing poorly defined, fragmented and costly administrative processes.

There is also a need for governments to review a number of matters affecting the performance of the forest industries. These include: the taxation treatment of private wood growers; the level and allocation of government funds available for training; and building regulations which currently restrict the use of timber in multi-storey structures.

The major initiatives that need to be taken by governments are summarised in the box on the following page.

Although governments have implemented some changes to promote competitiveness and growth, there is a danger that the benefits of some measures, and other changes advocated by some groups in the community, will be outweighed by costs associated with their introduction. For example, government initiatives to coerce producers to increase output of higher value added products may be counter-productive. They could encourage investment in activities which are not commercially viable, at the expense of more profitable investment in activities entailing lower levels of processing. This could result in the forest products industries contracting rather than expanding. Value added is more likely to be enhanced if governments focus on removing barriers to the production of higher value added products (eg improving project approval processes, removing restrictions which retard trading in logs purchased from state forestry agencies and introducing reforms to lower input costs), and allow individual firms to assess investment opportunities on normal commercial grounds.

Governments should also resist pressures to introduce measures such as mandatory recycling targets and selective taxation exemptions to increase consumption of recycled paper. Such measures distort patterns of supply and demand, and can undermine the competitiveness of other sectors of the forest industries. It is more appropriate for governments to address the causes of the problem rather than the symptoms (eg underpricing of waste disposal to landfill).

Major actions governments need to take to increase competitiveness		
<i>Objective</i>	<i>Action</i>	<i>Responsibility</i>
Improve resource security	<ul style="list-style-type: none"> • Implement commitments outlined in the National Forest Policy Statement 	Commonwealth and State Governments
Increase efficiency of public wood production	<ul style="list-style-type: none"> • Privatised public plantations • Corporatise public forestry agencies • Allow log entitlements to be divisible and tradeable 	State Governments
Increase efficiency of private wood production	<ul style="list-style-type: none"> • Clarify existing taxation arrangements • Create a means for separating ownership of trees and land • Discourage discriminatory actions by local government 	Commonwealth and State Governments
Improve project and environmental approval processes	<ul style="list-style-type: none"> • Establish and publish clear guidelines • Streamline administrative procedures 	Commonwealth and State Governments
Improve efficiency of government business enterprises	<ul style="list-style-type: none"> • Accelerate pace of reform programs 	Commonwealth and State Governments
Increase workforce skills	<ul style="list-style-type: none"> • Review the level and allocation of training funds 	Mainly the Commonwealth Government
Remove inefficient regulations	<ul style="list-style-type: none"> • Abolish export controls • Remove sales tax exemptions on recycled paper • Review building regulations 	Commonwealth Government State Governments
Promote access to overseas markets	<ul style="list-style-type: none"> • Engage in trade negotiations to reduce tariff and non-tariff barriers 	Commonwealth Government

Assistance

Most participants accept the current program of tariff reductions. However, some consider that, in the present economic circumstances, a pause in the program would facilitate changes being made by the industries to improve competitiveness.

Selectively slowing, or halting, planned tariff reductions on wood and paper products may promote growth in the forest products industries. On the other hand, this would be at the expense of other groups in the community (eg users who would be deprived of cheaper wood and paper products). It would also defer adjustments which eventually must be made if competitiveness is to be improved.

In the past, the assistance available to the forest products industries has differed markedly, mainly because of varying levels of tariff assistance. Some products (eg plywood and certain printing and writing papers) have benefited from high tariff levels, while others (eg newsprint), have received no tariff assistance. Similarly, while most products sold domestically have been afforded at least moderate levels of assistance, relatively little has been available to exported goods.

Disparities of this nature can impose significant economic costs on the community. However, the phased reductions in tariffs have substantially reduced these disparities. While some undesirable differences persist, the Commission considers that the most appropriate way of overcoming the remaining problems is to continue with the announced program of phased tariff reductions. This will provide the industries with levels of tariff assistance similar to those available to most other manufacturing activities.

Benefits from improved competitiveness

Although some microeconomic reforms (eg the introduction of more efficient road user charges) are likely to disadvantage local producers of forest products, other reforms made by governments and changes initiated by the firms themselves will reduce costs. The extent to which this will translate into increased international competitiveness will, in part, depend on movements in exchange rates and on Australian producers' capacity to improve non-price factors which influence competitiveness (eg product quality and delivery times). Perhaps more importantly, it will depend on the rate at which overseas competitors improve their competitiveness. Consequently, the magnitude of the benefits that will be derived from efficiency improvements is closely related to the speed with which change is implemented. The sooner the changes are made, the greater is the likelihood that we will gain an advantage over our competitors.

Many of the changes cannot be introduced overnight. Investment in new plant and the development of new products and new markets all take time. Nonetheless, firms can make significant changes in important factors such as labour productivity and marketing relatively quickly. Governments also have the capacity to make significant changes in relatively short time periods. For example, some measures could be implemented within a few months (eg the abolition of the export controls and the sales tax exemption that applies to some papers made from recycled fibre). Other measures recommended in this report — such as corporatising forestry agencies, selling public plantations, implementing the already announced initiatives to improve resource security and introducing more efficient project approval processes — will take longer. Nonetheless, given the necessary commitment, it should be possible to make substantial progress towards achieving these goals within a 12-month period.

Growth prospects will obviously vary and will not be necessarily correlated with competitiveness. For example, local production of each of those products assessed above as ‘most competitive’ satisfies virtually all domestic demand. Consequently, the growth potential may be higher for products which are slightly less competitive, but have expansion opportunities in the domestic market, as well as in international markets.

The major factor that is likely to prevent growth in hardwood sawmilling — and more than likely lead to reduced activity levels — is not so much competitiveness against imported hardwood, but increasing competition from both local and imported sawn softwood. The potential for growth in tissue products and packaging made from paper (eg cardboard cartons and boxes) also seems limited. Because of their low value relative to volume, transport costs are high and international trade is relatively small. Hence, despite some recent increases in exports, growth opportunities are likely to be mainly confined to those available in the domestic market — the overwhelming bulk of which is already satisfied from domestic sources.

Social and environmental impacts

Further workforce rationalisation appears inevitable. Consequently, employment growth will lag behind increases in the industries’ output. Indeed, if little or no improvement in competitiveness is achieved, employment will decline. Given the decentralised nature of wood processing operations, this would impact most severely on rural centres.

An increase in the output of higher value added products would, in most instances, imply an increase in processing operations and in employment opportunities. This would reduce the decline in employment which would otherwise be expected to accompany future initiatives to improve productivity.

The extent of any increase in output of higher value added products is, however, difficult to determine. It will largely depend on the extent to which Australian processing costs can be reduced, although other factors will also come into play (eg relatively high tariffs on processed forest products imposed by some countries which constrain market access).

The environmental guidelines which currently apply to the industries are intended to reduce the likelihood of their future development giving rise to significant adverse environmental impacts. Nonetheless, as new products and new technologies are developed, environmental guidelines may also need to be modified.

The trend towards increased sourcing of wood from plantations and private property should, in the medium to longer term, reduce the demand for wood from public forests. This would also increase the stock of trees in Australia and help reduce greenhouse gases. To the extent that Australian wood and paper products produced from forests and plantations managed on an ecologically sustainable basis displace similar products produced from wood sources not managed on a sustainable basis, there could also be global benefits.

FINDINGS AND RECOMMENDATIONS

FINDINGS

1. The forest products industries comprise an important component of Australia's manufacturing sector. The industries employ about 40 000 people and have an annual value added of around \$3 billion. This represents a little over 4 per cent of both manufacturing employment and value added. However, in many regions (eg Mt Gambier and Gippsland), the industries constitute a far more significant proportion of economic activity.
2. Most sectors of Australia's forest products industries have considerable growth potential. For most, there is scope for displacing imports in domestic markets. Increasing international and domestic demand will create growth opportunities, as well as scope for expanding production of higher value added products.
3. The potential for the development of the hardwood sawmilling industry may be limited as some of its traditional markets are likely to be subject to on-going competition from sawn softwood. Its future prospects will largely depend on further rationalisation and on producers' ability to develop higher value niche markets. As domestic consumption of tissue products and paper packaging is mainly satisfied by local producers, and as relatively high transport costs limit export opportunities, development opportunities for these products are likely to be closely linked to growth in domestic demand.
4. The capacity of the forest products industries to capitalise on the available growth opportunities will largely depend on their ability to increase international competitiveness. This will require actions by the Commonwealth, state and, to a lesser extent, local governments to remove impediments to growth, as well as measures by individual producers to improve efficiency.
5. International competitiveness varies significantly between firms, plants and products within each forest products industry. However, in broad terms, international competitiveness with existing plant appears to be greatest in the production of hardwood chips, particle board, pulp and packaging and industrial papers, and least in hardwood plywood, sawn hardwood and certain printing and writing papers.

6. Government action is required to overcome factors directly controllable by governments which presently reduce both the industries' competitiveness and growth opportunities. Government initiatives are required to, among other things:

- improve resource security;
- improve the efficiency of wood supply by privatising public plantations and corporatising government bodies responsible for the management of public native forests used for wood production;
- clarify the taxation arrangements applying to private plantations;
- abolish export controls on logs and woodchips;
- accelerate the reform of government business enterprises, including electricity, gas and transport agencies;
- establish clear guidelines and streamline administrative procedures necessary to obtain project and environmental approvals; and
- abolish sales tax exemptions which apply to certain recycled papers.

7. Government actions that prescribe how wood is utilised may be counter-productive to the development of the forest products industries. Decisions made on commercial grounds by individual producers are more likely to maximise the benefits to both individual firms and the community as a whole than are measures by governments that force producers to increase output of relatively high value added products. Government could help increase the output of higher value added products by focussing on removing impediments to their production.

8. The most appropriate actions that need to be taken by producers of forest products to improve competitiveness will vary, not only between the industries, but also between different firms within industries. However, the available information suggests that initiatives to: increase capacity utilisation; increase scale of plant; increase workforce productivity; develop new markets; and improve product quality and marketing will be central to most development strategies.

9. Disparities in the levels of assistance provided to different products, and products sold domestically compared with those exported, are most efficiently addressed by maintaining the current program of phased tariff reductions.

SPECIFIC RECOMMENDATIONS

The Industry Commission recommends that the following actions be taken by governments at the earliest possible date to help promote efficiency and growth in Australia's forest products industries.

1 Resource security

To decrease uncertainty and facilitate efficient investment decisions:

- Commonwealth, state and territory governments accelerate the implementation of measures announced in the National Forest Policy Statement to improve resource security.
- The processes needed to implement the National Forest Policy Statement be fully enunciated, and a timetable for implementation be established.

2 Public wood supplies

To improve the efficiency of wood supplies:

- Plantations owned by state and territory governments be progressively offered for sale to private sector interests.
- Management of any remaining government owned plantations in each state and territory be made the responsibility of one or more corporatised government bodies.
- Management of crown land used for wood production in each state or territory, other than government owned plantations, be undertaken by one or more corporatised government bodies.
- Corporatised forest management agencies neither be obliged, nor permitted, 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.
- Corporatised bodies be subject to the provisions of both the Trade Practices Act and the Prices Surveillance Act, required to pay all relevant taxes and charges, meet a rate of return requirement and pay a dividend to government. Non-commercial functions which they may be required to undertake be specifically identified and separately funded. Corporatised forestry bodies should not be responsible for regulatory functions.
- Licences and associated log entitlements issued by state governments be both divisible and tradeable.

- Governments cease to use log royalties, log allocation procedures or any other instrument to direct output of the forest products industries towards the production of higher value added products.

3 *Private wood supplies*

To reduce the impact of factors which may unnecessarily restrict private sector investment in plantation development and agroforestry:

- The Commonwealth Government request the Australian Taxation Office to clarify the application of the *Income Tax Assessment Act 1936* as it applies to sellers of immature plantations.
- A legal basis be established for separating the ownership of land and the trees grown on that land.
- State governments act to dissuade local governments from using measures such as planning controls which discriminate between plantation developments and other agricultural activities.

4 *Regulatory matters*

To remove inefficient regulation and other government policies which have the capacity to impede efficient development:

- All Commonwealth, state, territory and local government controls on exports of logs and woodchips, and the research levies applied by the Tasmanian and Western Australian Governments to export woodchips, be abolished.
- The Tasmanian Government legislate to remove licensing restrictions which limit competition in the provision of road freight services, and remove requirements that a fee apply to logs (and other designated goods) carried on routes served by Tasmanian railways. Consideration be given to modifying regulations to allow the use of B-doubles and to further extend operating hours.
- Building standards and associated codes be reviewed to ascertain whether the present restrictions on the use of wood in multi-storey dwellings are appropriate, and amended as necessary. Wherever possible, standards be performance based and, where appropriate, harmonised with international standards.
- Sales tax exemptions applying to certain recycled papers be abolished.
- Mandatory recycling targets and government procurement policies not be used to artificially stimulate demand for paper made from recycled fibre.

- Clear guidelines and more efficient administrative procedures be introduced to remove inefficiencies associated with existing project and environmental approval processes.

5 *Reform of government business enterprises*

To help ensure that goods and services provided by government business enterprises are produced and priced efficiently:

- The Commonwealth, state, territory and local governments accelerate the pace of microeconomic reform, particularly in the areas of land transport, sea transport and energy supply.

6 *Training*

To help overcome any deficiencies in the availability of management and workforce skills:

- The level and allocation of government funds available for training relevant to the needs of the forest products industries be reviewed.

7 *Research and development*

To improve the basis for the funding of research and development:

- The levy to fund the activities of the new Forest and Wood Products Research and Development Corporation not be applied to imported forest products.

Attention is drawn to the Commission's comments on:

- the desirability of having more than one corporatised body in each state responsible for commercial wood production to increase competitive pressures in wood supply (Section 6.2);
- compensation payments by governments for actions which cause existing contracts between forest industries and wood suppliers to be breached, or which prevent the harvesting of trees grown for commercial purposes on private land (Section 6.3);
- the need to proceed with the announced program of tariff reductions (Section 10.2);
- the developing country preferences accorded imports of paper (Section 10.2);
- the need for the Commonwealth Government to continue negotiations to lower barriers to international trade (Section 10.2);

- the focus of research undertaken by the new Forest and Wood Products Research and Development Corporation (Appendix I);
- the possible role of the Forest and Wood Products Research and Development Corporation in disseminating information about log sales (Appendix I); and
- a methodology for establishing research priorities (Appendix I, Attachment I.1).