Wood Products Victoria Ltd

5th June 2015

FIAC Secretariat
Forestry Branch
Department of Agriculture
GPO Box 858
Canberra ACT 2601

Re: Wood Products Victoria Submission to Forestry Industry Advisory Council's Strategic Directions Issues Paper-
Meeting Future Market Demand Australia's Forest Products and Forest Industry

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The Forest Industry Advisory Council (FIAC) is seeking views on the appropriate government policy settings and the role of industry in preparing the sector to meet demand over the coming decades. The Strategic Directions Issues Paper offers 26 questions for consideration, Wood Products Victoria (WPV) responds herein to 14 of these questions providing brief direction and advice for consideration and inclusion in the proposed *FIAC Discussion Paper* which will be developed around these Issue Paper submissions. WPV can to provide further background and detail on these suggestions if FIAC deems them suitable for inclusion in the next Discussion Paper phase.

Introduction

WPV is extremely optimistic about the continued future market demand for forest and wood products globally and particularly in Australia in traditional markets, for currently emerging markets, and also it is expected in new cellulose and bio-based based products and services which at this point have not even yet been envisaged.

Wood fibre is the 21st century material – it is the *only commercially realistic natural, renewable, sustainable and greenhouse friendly resource.*

This is now well recognised and embraced in many countries throughout the world and as such forest development and usage in these countries is actively encouraged and supported by communities and governments for all its triple bottom line values: environmental, social and economic.

In Australia however, though consumer demand for the wide range of wood based products available is high and growing, the triple bottom line values are only really tacitly acknowledged but not currently truly supported by government or by the community.

As a broad overview introductory observation it is strongly suggested that, 'finding future markets for forest fibre will not be a problem' – the real future challenge will revolve around 'availability and access to resource' (both native forest and plantation), and industry leadership and coordination around market offerings and market development.

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Whilst the forward to the discussion paper states that *"in determining what the future may look like for our forest products sector, <u>we cannot look to the future through the rear-view mirror</u>—we need to <u>look ahead</u>"* this cannot really be done effectively without acknowledging the current environment in which industry now finds itself. The following provides a brief dot point summary from a number of different perspectives to set a level of context for the suggestions within this submission.

Operating Environment

- The recent past business environment has been particularly difficult for forest & wood product related businesses due to the:
  - GFC, high Aust dollar, US residential market collapse and increase in low-price imports,
  - depressed housing market in some states (now improving), industry exits and rationalisation.
- Markets for residual and plantation hardwood resource have dramatically diminished.
- With no resource security and a tough business environment industry has not been prepared to invest (either in their own companies, associations or R&D) it also has not been able to attract broader investment sector interest.
- Softwood plantation resource areas have not grown over last 13 years and many hardwood plantation projects appear to have been pursued for the wrong reason (short term tax gains).

Current Resource Offering

- *Australian Native Forests* – reduction in access continues - possible future total closure now likely unless historic trends are dramatically reversed.
- *Australian Hardwood Plantations* - limited market for much of current plantings as international woodchip demand from Australia diminishes (unless we are clever with new product opportunities).
- *Aust Softwood Plantations* - no recent expansion of overall plantings.
- *Imports* – increased presence (potentially increasing reliance depending on the above).

Government Support & Leadership

- State governments as native forest owners and managers have provided little commitment to actively promoting or supporting the use of public native forest forests for all their triple bottom line values – including production of timber products that Australian consumers desire and want.
- Public native production forest areas have continued to be reduced by governments throughout Australia (death by a thousand cuts). Government at all levels continues to say it supports a strong and growing Australian Wood and Forest Industry but its actions in response to radical green groups continue to sway government policy at elections (Govt says these radical anti industry groups don't speak for the Aust Govt or the community – but lack of vocal government support for the industry and continued forest area reductions clearly shows that they do).
- Government hand-outs for industry exits and restructure have encouraged companies out of the industry – rather than using this money for investment in industry development and growth.
- Regional communities that rely on forest products continue to be negatively impacted by resource restrictions and industry exits, as do urban based supply chain businesses that use forest products.
- The forest industry continues to be used as a political 'green' football. Government at all levels needs to actively demonstrate commitment not just platitudes to a future sustainable forest industry.

Industry Support & Leadership

- Industry company priorities have over the last few years been highly focussed on survival not on broader industry market development or growth.
- Industry national and state association support and capacity particularly in the technical and promotional marketing areas has been dramatically reduced to well below critical mass (in 2002 there were effectively 60 full time equivalent generic industry technical promotional staff, in 2015 there are currently around 6 remaining and some of these soon to retire).

- Industry investment in R&D has also dramatically reduced and accordingly today the local scientific capacity to assist industry is now non-existent in many areas (R&D capacity is now being sort off-shore).

Market demand

- Demand for wood products from customers in traditional products continues to grow in both local and export markets.
    - Residential framing – still the biggest market segment for sawn timber products predominately softwood solid sawn & EWP's (current turnaround in market demand is in fact putting pressures on supply particularly in the frame & truss sector which could open opportunities for prefabricated steel framing).
    - Major new opportunities for all timber building products structural and appearance likely from 2016 in a range of other non-residential classes (apartments, hotels and office buildings) if a current proposal for change to the National Construction Code is accepted to allow timber structures to be constructed up to 25m in under the NCC deemed to satisfy provisions.
    - Durable external products (cladding, decking, screens, boardwalks, landscaping).
    - Appearance products (res & non-res): flooring, lining, joinery, cabinetry, windows & doors, stairs.
    - Quality hardwood furniture (though increasingly imported).
- new product market/opportunities exist overseas which Australia is yet to fully capitalise on in: engineered wood products (CLT, PSL, LSL, OSB), wood/alternative material composites, chemically/thermally treated wood, bio-fuels and co-generation opportunities, etc
- opportunities for totally new products abound ie nanocrystalline technology (NCT), then there are the products/market opportunities we have not yet even thought of as yet.

Key Outtakes

- Massive opportunity exists - for **wood fibre is the 21st century material** – the *only realistic natural, renewable, sustainable and greenhouse friendly resource (globally this is now recognised).*
- The forest and wood products industry and the Australian government (at all levels but particularly the state level as direct forest managers of the public resource) needs to clearly decide **does it seriously want to be a resource and/or manufacturing focussed player in this opportunity or are they accepting that local demand be met for some product sectors from imported forest & wood based products**.
- If Australian grown timber is to be utilised (hardwood and softwood), then there needs to be a strong focus on promoting, in both local and export market opportunities, the **distinctive and matchless natural properties and beauty of this uniquely Australian resource** – this provides a distinct and unique market proposition.
- **For the future a broad and unified vision and commitment is needed – industry & government (partnership or policy settings)** – despite the posturing and rhetoric this has not been happening in practice (particularly compared to other countries in the world with innovative and growing forestry sectors).

The Issues Paper Forward also states that "*there are challenges in doing so* (in emerging opportunities and future demand for forest products) *and our collective response requires fresh, clear thinking".* No statement could be truer - for the major changes needed for a prosperous future forest and wood product industry - significant fresh and new action is required by industry and government.

Responses to Specific Issues Paper Questions

Vision and objectives

1. What should the vision be for the forest products sector in the coming decades?

The vision for the coming decades in the Australian forest and wood products sector should consider the need to have:

> **a growing and prosperous local and import based forest and wood products industry, recognised and valued by the community for its full triple bottom line benefits: social, environmental and economic; working strategically, collectively and actively together along the full supply chain and with all levels of government to maximise the societal use of wood fibre as the 21st century material.**

2. What specific objectives should underpin this vision?

Clear and Unambiguous Focus

The Australian forest and wood product Industry and government (at all levels) need to be unambiguously clear and agreed on the future vision and focus for the industry's mid to long term future. **Delivery of an appropriate government White Paper and agreed industry vision and collective growth strategy should be a goal within the next twelve months.**

As forest product production is very much a regional-based land-use issue, the sector clearly shares many common issues and opportunities with the broader agricultural sector. Recognising this perhaps the specific 'production forest' sector would fit more logically and comfortably within a broad land use agricultural based plan; then it is seen as another valuable rural based product. Whilst forest & wood products remain segregated in a separate overall forestry plan then production values will continue to get placed behind the broader forestry values.

Resource Security

The political certainty around resource security must be resolved – this is arguably the most important government policy setting. Commitment needs to be demonstrated and adhered to at all levels of government. Industry and government needs to realistically acknowledge that this is a major issue not just for public native forests but also plantations. **Resource security measures need to be determined and agreed and clearly addressed in both the White Paper and Industry Growth Strategy.**

Plantation Expansion

Realistic plantation targets need to be set and pursued for both softwood resource and market focused hardwood plantations - species that the market desires for appearance product applications (e.g. 3 million hectares by 2030, - Plantations 2020 Vision).

Industry Investment

Increased investment by industry companies internally and by the broader external investment sector needs to be secured. This must be a major focus - from the forest to the consumer. Appropriate government policy and tax settings need to be developed to encourage mid to long-term investment in new resource and new processing facilities (for local and Asian export markets) and recognition of carbon storage benefits.

Collective Action & Leadership

For the future a broad and unified vision and commitment is needed. Industry and government (as a resource owner) must implement a more structured and strategic approach to overcome the current fragmentation and lack of coordination and action. Leadership and collective action needs to be demonstrated along the full supply chain. **A proper forum/structure needs to be implemented and**

supported over the next twelve months to make this happen – it does not currently exist. *New non-residential building and construction markets in particular have the potential to offer significant new market share for all timber products – local and imported, softwood & hardwood, structural & appearance, engineered and sawn – but only if they are developed in a structured and collaborative manner to meet customer needs.*

Appropriate new generic industry market development frameworks need to be developed, funded and implemented. Within this new framework industry association structures need to be rationalised; there are today too many shells of associations which contain a remanent few valuable and knowledgeable staff but limited funding and capacity to be broadly effective. *There has been no succession planning over the last decade around key generic industry knowledge or skills and a vast wealth of knowledge has been, and will soon be, lost. Industry has talked about rationalisation to a single effective body for over a decade; the time is right now to act. Note: existing association staff shouldn't feel threatened about job loss – the biggest issue for industry is currently the lack of knowledgeable and skilled human resources.*

In regards to government leadership and support this needs to occur at all levels – national, state and local council levels. Excellent progress has already been made with the Latrobe City Council which ratified its Wood Encouragement Policy in December 2014 (see Appendix A). This policy has also now been endorsed by the Municipal Association of Victoria and is also on the agenda for discussion and endorsement at the *2015 National General Assembly of Local Government (NGA), June 14-17.* Building on this success **all efforts should be made over the next 12 months to have wood encouragement policies introduced at all levels of government throughout Australia.**

Social, Economic & Environmental Benefits

Future support promotion and encouragement for the forest and wood products sector needs to strongly focus on the triple bottom line benefits but particularly the 'social' and 'environmental' values. These are sellable and resonate with public and governments. Urban based voters are not generally influenced by rural based sector issues but they are interested in: access to affordable housing, environmentally responsible products, greenhouse gas related issues (particularly carbon taxes and increased energy costs), and mega-fire threat. Industry's approach to selling its values needs to be reviewed and if necessary realigned as part of any future social licence or community engagement strategy. **Clear simple industry promotional messages need to be developed and consistently and continuously delivered by the whole forest and wood product supply chain and government.**

Issue 1: Market trends and pressures

3. What forest (and wood based) products does Australia have a local and/or international competitive advantage in producing?

In terms of sawn wood products, Australian producers still appear to be locally competitive in their key traditional building and construction products including:

- **Sawn structural products**, particularly for Australian plantation softwoods (recognising though that this market is highly commoditised and price sensitive)
- **Sawn appearance products**, there is particularly strong demand for native Australian hardwoods including
    - durable external products – decking, cladding, screens, boardwalks
    - internal products: flooring, lining, joinery, stairs, windows & doors, furniture
- **Manufactured products**, includes: stairs, doors, windows, - market still relatively good but competitive
- **Engineered wood products**:

- Truss and frame: demand is currently very strong, though industry was struggling over the last few years due to over capacity and reduced housing starts in some states
- Laminated Veneer Lumber (LVL): market demand continues to be consistent though margins on products are currently low, price pushed down over last 18 months due to cheap imports and product competition (currently only one Australian producer).
- Panel products: particleboard, plywood, MDF, - demand still strong, imported products also quite dominant particularly in plywood sector (overseas veneering capacity is very strong compared with Australia)

- **Reused and recycled products** – good continued market demand and price, but limited by volume availability (designers are very enthusiastic about recycled product both the look and the benefits from a life cycle approach)

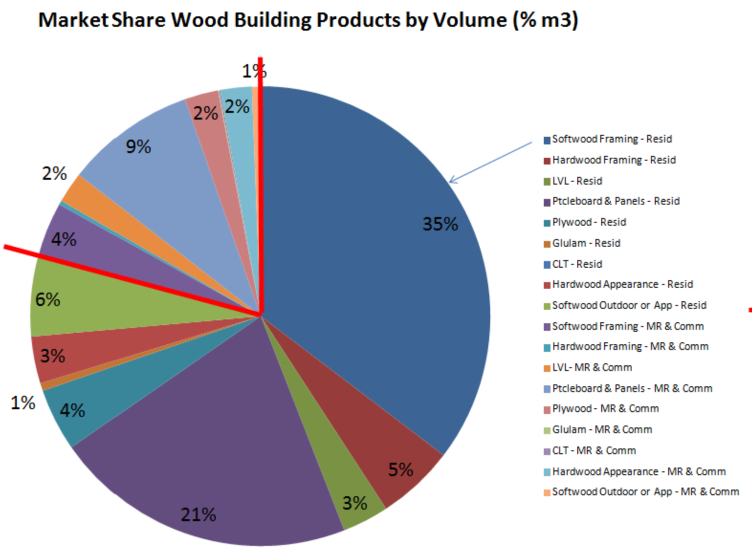
Utility applications such as power poles cross-arms and hardwood pallets are also still consistent markets for 'lower grade' wood.

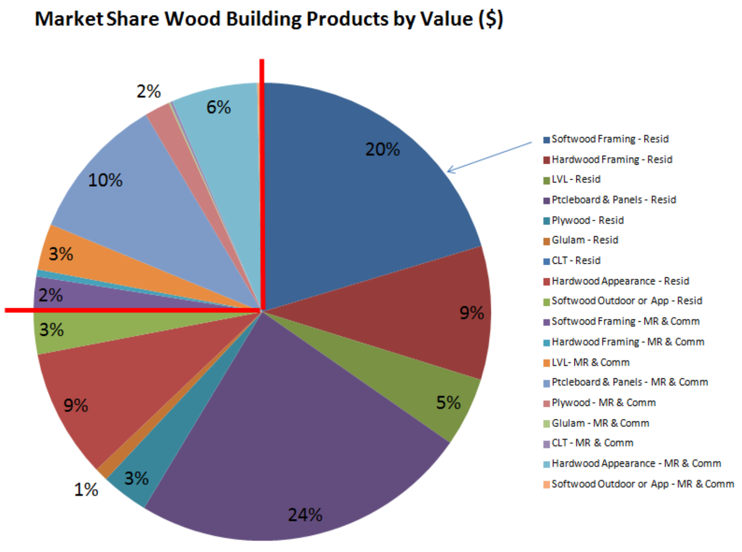
Obviously one of the key issues in assessing competitive local or international market advantage, as has been dramatically seen over the last few years, is the impact of global exchange rates. To survive over recent years, businesses have needed to demonstrate that they can be adaptable, flexible and resilient; many look to pursue multiple products. Whilst this is a logical diversification and protection strategy it also means that scale of production remains low and so production efficiencies for particular products become more difficult.

4. What is the potential demand for forest (and wood based) products in the coming decades?

Current Residential Markets

Sawn wood product target markets remain predominately residential sector focused. Approximately 80% of the volume of locally produced and imported wood building products ends up in the residential sector representing approx 75% of the value (see below).





Residential 80% by volume

Residential 75% by value

Source: compiled by WPV from ABS statistics and industry discussions 2014

It is expected that this residential demand will continue to remain strong into the future in all current residential timber usage applications.

It is also expected that new market share will be regained in areas such as raised ground floor timber construction using new prefabricated floor cassette systems (see opposite) delivered by Australia's frame and truss sector as an alternative to slab on ground construction, particularly on sloping sites, flood-prone areas and highly reactive clay sites. Each 1% of this market gained nationally is estimated to be worthy $10 - $12M in new wood products sales.

New Non-Residential Market Opportunities

Approximately 20% of the volume (and 25% of the value) of locally produced and imported wood building products rests in the multi-residential and commercial building sectors. However this market opportunity is expected to increase dramatically if industry is successful in its current proposal for change to have the National Construction Code (NCC) modified to allow timber construction for Class 2 (apartments), 3 (hotels) and 5 (office) buildings up to an effective height of 25m under the deemed to satisfy requirements from May 2016.

If successful this NCC change will provide opportunities for an extremely wide range of wood based products including: sawn softwood and hardwood structural framing, engineered structural products (I-beams, LVL, LSL, plywood, CLT, OSB, etc), as well as a wide range of appearance fit-out products. This has the potential to provide expanded opportunities for all wood based products – locally produced and imported. Each 1% gain of these new markets is estimated to be worth approx $50M in new wood product sales.

What will be absolutely critical for success is a structured generic market development program and delivery campaign undertaken in a industry-wide collaborative fashion involving all timber product supply chain sectors (local & imported). This is all new market opportunity, so industry companies do not have to be in competition in this area and will gain far more through true generic market development collaboration - not as a race for quick sales and profits. Working collaboratively will provide new opportunities for all wood products – the competition going forward is steel and concrete products, not timber cannibalising timber.

A note of caution, whilst developing these new market building class opportunities, industry also needs to be particularly careful about maintaining its traditional residential markets (80% of current volume), if it doesn't then it will simply leave a hole in the existing residential market which is likely to be quickly filled by light gauge steel framing products. Each 1% loss of these markets is worth approx $34M. **An appropriate generic industry strategy plan needs to include both new market development and existing market protection.**

Ongoing Demand for Australian Hardwood Products

It is expected that the demand for Australian hardwoods particularly in appearance products (screens, cladding, lining, flooring, staircases, windows, doors, mouldings, cabinetry, furniture, etc) will continue to remain strong due to their highly unique and sort after look and performance, not just the physical properties and colours but also due to the distinctive natural features inherent due to their growth in Australia's harsh environment. Increased market opportunities exist locally and perhaps more importantly internationally. **The biggest issue here again continues to be ongoing access to resource and resource security to allow appropriate investment and to ensure commercial volume availability.**

Engineered Wood Products

There is an increasing interest in, and global demand for, engineered wood products (EWP's) – particularly through Europe, North America and Asia (it is interesting to note that Japan is planning to have around half a dozen CLT plants in place over next few years taking local timber and producing local CLT – *Japan CLT Assoc 2015, private discussions*). It is expected that there will be ongoing demand for the current range of EWP's produced in Australia including: MDF, particleboard, plywood, wall & roof trusses, Glulam and laminated veneer lumber amongst others. There are also a wide range of new product market/opportunities that currently exist overseas which Australia is yet to fully capitalise on including: oriented strand board (OSB), cross laminated timber (CLT), parallel strand lumber (PSL), laminated strand lumber (LSL), wood/alternative material composites.

Biomass for bio-energy

Demand for bio-mass and bio-energy type products and processes are increasing in Australia but limited due ironically to green group pressure. There will continue to be increasing demand in other countries but this may or may not be an opportunity for Australia depending on other potential uses for the resource.

5. How can Australia best position itself for this demand, both nationally and internationally?

- Starts with resource availability and security
  - Need clear and ongoing and legislated native forest area access for production
  - Need increased plantations (both market focussed hardwood and softwood).
- Need to establish appropriate mid to long term Government Policy Settings (all levels Govt)
- Need to encourage greater industry investment and up-scaling (will not happen without resource security).
- Need to differentiate the Australian product offering based on the uniqueness of the resource (appearance through to structural products)
- Industry companies either need to be specifically focussed on one product line for local and export markets; or adaptable, flexible and resilient in terms of market offerings (so if one product market is down, others are up) – some markets are fully exposed (structural) some much less so (bespoke furniture).
- Need dedicated, structured generic industry market development and market protection programs and frameworks developed, implemented and adequately resourced and funded.
- Need much more extensive, consistent and adequately funded generic promotion and technical assistance to designers and specifiers of products. The US and Canadian *WoodWorks* programs provides an excellent example of how this can be effectively achieved (a plan for a similar Australian program and prospectus has been developed by WPV in conjunction with the FWPA WoodSolutions program but has not yet been taken to industry – more on this see question 17).

6. What are the other drivers or disruptions that will potentially affect supply and/or demand?

Drivers

- Resource security
- Improved social licence
- Increased promotion by state governments (as a resource owner and manager) of all forest values including production
- Increased investment (government, industry & external investors)
- More extensive Government Wood Encouragement Policies (Latrobe City Council first to endorse a WEP, many other local governments now investigating this)
- Improved R&D Capacity
- Properly structured and funded technical support and market promotion
- Consumer and specifier education and understanding

- Regulatory product/market framework changes
- Networking of regional communities, encouraging local product manufacture – production HUBS

Disruptions

- Industry's lack of true market development behaviour (both local & imported players). Industry does a very poor job at collectively 'marketing' the broad opportunity for wood. Rather it pursues rudimentary sales responses such as cutting prices against other timber products to win short term sales (this is often encouraged and played on by wholesalers). If existing residential markets are to be protected whilst building new markets in apartments, schools, hotels and offices then proper market development strategies need to be employed in a collective and collaborative fashion to build opportunities for all wood products - not competition between wood products.
- Loss of markets to alternative products
- Continued aggressive radical green campaigns – reducing resource access and consumer social licence
- Continued mega-bushfires or extreme weather events reducing resource volumes
- Increased regulation (forest and building)

Issue 2: Emerging uses and markets

7. Which emerging forest products have the greatest potential for Australia?

There are a wide range of exciting forest, wood and cellulose based products emerging around the world. They definitely will have potential for Australian consumption; whether they have potential for Australian production is more a vexed question. The biggest issue always for new products in Australia, whatever the sector, is our small population and as such comparatively limited demand (for most larger scale ventures an export market will be critical) and accordingly also potential 'scale of operations' (for maximum efficiencies large scale, integrated and often highly automated facilities are needed).
Some of the emerging products that may have potential include the following.

- Engineered Wood Products (EWP's)
  - *Cross Laminated Timber (CLT)* – Recent building work undertaken by Lend Lease (Forte and Library at the Dock) has demonstrated the construction and cost efficiencies of the CLT product in mid-rise commercial construction. Local interest by designers and developers in CLT continues to rise and will do so further with changes to the NCC in 2016 to allow timber construction to 25m under the deemed to satisfy provisions. Whilst imported product will satisfy initial market build demands, ultimately local builders will want larger panel options than can currently be container transported and also quicker and more local supply. Local production of CLT will occur; timing will depend on market demand requirements and the ability to attract investment. The best solution is likely to be a medium capacity, automated, scalable, hydraulic-press focussed facility producing for both the local and Asian export market. This is likely to provide a significantly better market return for current 25-30% of sawn softwood plantation timber that doesn't make the minimum MGP10 grade. Australia really needs also to invest in an R&D program to investigate the potential opportunities for utilising its unique hardwood resource in either full hardwood CLT panels or hybrid softwood/hardwood panels (many opportunities here that current overseas product doesn't have both structurally and appearance wise).

- *Hardwood Laminated Veneer Lumber (LVL)* - Whilst the market for softwood LVL is reasonably well supported by one local producer (Wesbeam) and a number of imported products no one is providing high strength hardwood LVL. This potentially provides an opportunity for an Australian player particularly if commercial volumes of the current blue-gum and nitens hardwood plantation resource can be utilised along with some of the native residual log resource (an R&D project with CSIRO was undertaken in the mid-90's which demonstrated high strength hardwood beams (F22, F27, F34) could be produced from residual hardwood resource).

- *Oriented Strand Board (OSB)* – This product is not currently produced in Australia yet the imported product is gaining increased popularity in a wide range of structural and appearance grade applications. OSB would again is likely to provide a more valuable market offering for low grade resource and mill off cuts.

- Veneered and Flaked products – Australia has a very limited veneering capacity particularly for hardwood (only one facility in Tasmania). An opportunity may exist for a veneer and flaking facility (peeling, slicing, flaking) particularly for hardwood decorative veneers and hardwood LVL and OSB feedstock. This might be best pursued through a regionalised 'hub' approach where different manufacturing units share, where possible, facilities, infrastructure, energy, wastes, etc. A localised hub approach would also integrate well with local government wood encouragement policy initiatives and development and usage incentives.
- Prefabricated building systems – a major opportunity certainly exists for more integrated manufacture and value adding through prefabricated and fully panelised building systems. Australia lags well behind Europe, Japan and North America in this area. The shift in today's volume builder strategies to being more project managers, contracting site assembly lends itself to greater prefabrication offerings; whilst the shift into new non-residential building class opportunities (apartments, schools, hotels and offices) requires new systems-based timber solutions where prefabrication and panelised systems and supply systems are the norm and the base level expectation of customers in these markets (commercial developers & builders).
- Chemically & thermally treated products – this is an area of increased interest overseas particularly in improving lower grade non-durable timber species. Both chemical and thermal treatments can improve a product's stability, durability and colour offering. Whilst R&D continues in this area on overseas species, little work has been done on Australian species.
- Powder coated wood products – R&D has been done on this in Australia but not yet commercialised.
- Wood cellulose, nanocrystalline technology – hard to say the broad benefits at this point but potentially a very exciting area for the future. Australia with its limited capacity might be better to wait and observe overseas work, then see what opportunities exist for unique Australian timbers.
- Pellets & biomass for bio-energy – good potential opportunity if energy costs continue to rise.
- Those products not yet discovered – this offers exciting possibilities for the next generation.

8. What are some of the barriers to the development and/or uptake of these emerging forest products in Australia?

- Scale – with Australia's small population and market demand any investments in large scale manufacturing plants will need to include export opportunities (Asia a major target)
- R&D Capacity – Australia's forest & wood product R&D capacity & funding is at an all time low. Industry needs to decide whether it realistically wants a local R&D capacity or rather the

preference is to go overseas for R&D support. If the Australian industry wants capacity then it needs to commit to developing an agreed strategy and realistically funding these commitments.

- Lack of long term industry vision and commitment
- Inconsistent government policy frameworks
- Lack of industry and broad sector investment – critically needs addressing
- Continued radical anti-industry group campaigns
- Regulatory frameworks and change
- Marketplace preferences
- Lack of knowledge by specifying groups
- Technical assistance
- Generic market development
- Training & skills

9. What opportunities exist to better utilise wood resources?

- Use of more wood structural and appearance products in health and wellbeing related buildings: medical, schools, nurseries and obviously new mid-rise construction projects up to 25m under the NCC
- Use of residues and residual wood: LVL, CLT, OSB, Wood cellulose, nanocrystalline technology, bio-fuels

Issue 4: Innovation, research and development

13. What are the future research and development needs for Australia's forest products sector, and which of these needs are specific to strengths and opportunities in the Australian context?

Due to the lack of research funding over the past decade there are numerous areas which require more dedicated research – industry is simply kidding itself if it doesn't recognise this: tree growing, timber processing, drying, sawing, milling, gluing, inventory control, prefabrication, CNC processing, new reconstituted products, cellulose and nanocrystalline based products, chemical and thermal treatments, bio-energy, supply chain logistics – the list goes on.
Some specifics of current interest include:

- Development of a range of technical tools, guides, software, etc to assist with generic market development activities for new systems-based non – residential building market opportunities.
- Investigation of market focussed plantation hardwood for appearance products, by example: Spotted Gum, Stringybarks, Regnans.
- Development of a generic Australian industry grade for softwood sawn products for CLT feedstock (typically 25-30% of sawn structural softwood does not meet the minimum MGP10 structural grade and as such is downgraded to low vale products).
- Investigation into what might be done with the extensive existing hardwood plantation resource: globulus (blue gum), nitens (shining gum), in possible alternative product applications, ie hardwood LVL, CLT or other.
- Undertaking some basic fundamental hardwood cross laminated timber (CLT) research around qualities and grade of resource that might be used and gluing effectiveness. Perhaps initially a simple lower and upper bound approach utilising residual log and F17.
- Market focussed research around opportunities for high-strength hardwood LVL for local and Asian markets.

- Investigation of chemically & thermally treated products using Australian species (softwood & hardwood).

14. What are the current inhibitors to private sector investment in research, development and extension and what role, if any, does the Australian Government potentially have in addressing these?

- *Lack of an agreed industry vision and plan and a coordinated approach to delivery* – industry needs a clear position on the best options based on its current low base and capacity – should there be one dedicated and properly funded centre for research, or should there be multiple research hubs in different states, or should industry look to take its R&D needs to off-shore providers?
- *Resource security and a tough previous business environment* - companies over the last decade have been more focussed on survival and cost minimisation and not investment in broader R&D and extension. Industry company's previous response to an increasing in industry R&D funding was that companies would fund their own production R&D; generic industry activities should just focus on marketing – this is a very introverted and short-sighted view. There are many areas that would have potential benefit to a wide range of supply chain companies where properly structured generic research would benefit all – allowing companies then to focus on how they directly implemented outcomes into their business (wood waste use and biomass opportunities is a classic example that has implications right the way along the supply chain).
- Government could assist by providing
    - clarity on future resource access and security,
    - appropriate research based tax incentives for companies,
    - increased matching funds for R&D undertaken through FWPA,
    - advice on broader government departmental or CRC grant funding for innovation and development.

15. How can the framework for coordinating Australian forestry research and development be strengthened?

- Develop an agreed industry vision and plan and a coordinated approach to innovation and R&D delivery.
- Depending on the above vision:
    - develop and support a dedicated centre for wood & forest product R&D - 'A National Institute for Forest Products Innovation' as previously championed by AFPA,
    - increase funding and projects through FWPA (industry's R&D broker),
    - develop and support of Australian researchers and research institutes and building again of local capacity.

Issue 5: Consumer and community engagement

16. How can domestic and international consumers be better engaged on the environmental, economic and social credentials of Australian forest products?

As mentioned in the introduction to this submission, in Australia, though consumer demands for the wide range of wood based products available is high and growing, the triple bottom line environmental, social and economic values of wood products, though strongly promoted by industry, are really only tacitly acknowledged, but not currently truly supported by government or by the community. There still remains with many consumers a disconnect between product and source - they love their timber furniture flooring, homes and furniture - but don't cut a tree down; or at least not in my backyard. One of the key issues is the persistent and consistent rhetoric and actions of a handful of anti-industry groups against harvesting of wood products which has resulted in the erosion of 'social licence' and support. This not only affects local but international markets (e.g. Japan). This is a major issue for the native forest sector, but the plantation sector is certainly not immune.

Industry has funded and undertaken a number of programs over the last two decades using a range of different strategies in an attempt to build broader community social licence, including: the Rocking Horse campaign (NAFI), Wood Lives On (TPC Vic and TDA NSW), Wood Naturally Better (FWPA). Educating and building broad consumer support requires dedicated effort and usually considerable funding in media and television advertising. Past experience has shown that when this investment is made consumer support increases (at least to a point); but once these programs stop, awareness and support for forest harvesting again declines. **Highly vocal promotion of the benefits of the industry needs to be continued and expanded. Messages need to focus particularly on the environmental and social values and need to strategically evolve as consumers become more educated and supportive. Messages though need to be simple and easily understood (the anti-industry groups are masters at this).**

A key issue also particularly with public native forests is the internal government departmental land-use conflict between using forest areas for production of wood based products and reserving forest areas. History has clearly shown that despite extensive efforts with RFA processes, introduction of forest certification schemes, ongoing increases in harvesting based regulations and requirements, timber industry strategy developments, and regular acknowledgments of the value of the industry from both sides of politics and national and state governments, when an election comes around more resource area is reserved, paradoxically, to satisfy the green agenda. Anti industry groups also today target and cyber-attack the customers of our native hardwood export product customers causing serious and market threatening confusion and concern. The government response is that the radical anti industry groups don't speak for the government or the community – but lack of consistent and vocal government support for production forestry and continued forest area reductions suggest in practice that they do. **As major forest custodians and land-use managers' state governments need to be clear on their commitment to wood production to meet consumer demand and not continue to respond to anti-industry group pressure.**

17. How important are <u>consumer awareness programs</u> *to the future prosperity of the sector?*

In terms of sawn wood product 'consumer awareness' there are really a number of key sectors involved that are effectively the 'consumer influencers' of wood product specification and use, these include:

- building professionals (designers, specifiers, engineers, architects, building surveyors, quantity surveyors, educators and builders) – *this is a key group that needs to be well informed on wood otherwise it will simply not be specified*
- developers and project managers – *this group is becoming increasingly important in the volume residential sector and with new non-residential projects*
- do-it-yourself (DIY) practitioners
- retail purchasers – *ie one off purchases such as timber furniture*

Programs targeted at these sector groups are absolutely critical to the future prosperity of the sector. (Note: these programs should not be confused with 'community awareness social licence building' based programs – these are different, in message and execution, but also important in parallel, see Q16).

In a market sense, if wood products are to be widely specified and used and markets are to be grown, protected or developed, then two things need to addressed:

1. the 'consumer influencers' need to be educated and informed about the benefits, limitations and appropriate specifications of wood products and their use – so more wood is specified and used correctly, and

2. market restricting/market growing issues need to be addressed, these include amongst other things: addressing regulatory frameworks and procurement policies, countering competitor material campaigns, and undertaking technical market development activities.

Historically, the above activities were undertaken by industry technical promotional/marketing associations, as individual companies simply cannot do some of these bigger and technically challenging activities on their own, or they are best done, as they benefit all players within the industry, in a generic and collective manner. With a strong association structure this then leaves industry companies free to focus specifically on their individual company products, ensuring they are of the appropriate quality and fit-for-purpose, this may include internal R&D and product development and definitely includes product marketing and sales. The collective industry association capacity to address the above needs is now at an all time low, many associations left are simply shells of their former past and well below critical mass[1].

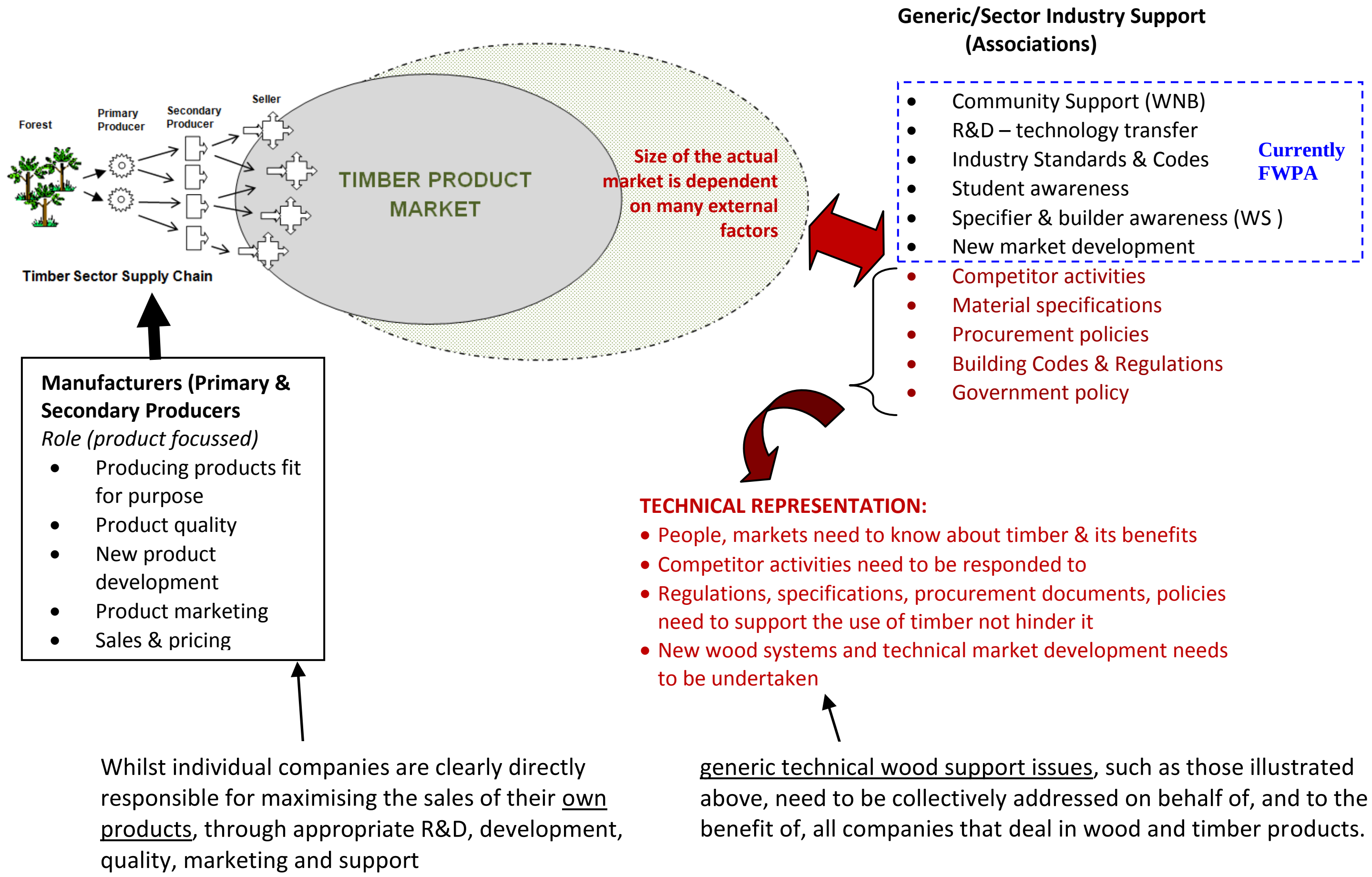


Illustration of Critical Issues and Actions That Impact On Timber Market Size

The figure above attempts to illustrate the different issues and actions that impact upon the actual overall market for timber products, which can effectively decrease in size (or grow) due to issues which are

[1] *In the early 1990's to the mid 2000's the industry association capacity was strong and well coordinated and great amount of market development work was delivered on behalf of industry through the National Market Development group (NMDG), effectively a federation of the national and state industry technical promotional associations. Over the last decade and a half as industry has endured the broader financial and resource access challenges, funding for these organisations has dramatically reduced, as has the association human resource capacity (in 2002 there were effectively 60 full time equivalent generic industry technical promotional staff throughout Australia, in 2015 there are currently around 6 remaining and some of these soon to retire). This issue needs to be addressed.*

predominately outside the control of individual companies. These issues are better addressed in a collective fashion through industry associations on behalf of all industry members.

Forest & Wood Products Australia (FWPA), within a very limited budget, addresses some of the generic industry needs including facilitating R&D through external providers, delivering the national wood consumer promotion program (Wood Naturally Better), managing both a standards & codes and statistics & economics programs, and delivering a specific (but limited compared with similar overseas initiatives) awareness program for building professionals and specifiers, WoodSolutions. The current WoodSolutions program involves: delivering a detailed on-line website of wood based information, sponsoring of professional associations, developing technical design guides and providing workshops and in-house timber tutorials on a number of specific timber topics.

The current WoodSolutions program whilst very valuable is however quite limited in scope. Greater cut through it is recognised could be achieved through expansion of the program, to one similar to the US and Canadian *'WoodWorks'* program, which includes employing knowledgeable timber technical representatives to pro-actively build relationships with developers and designers providing the opportunity to get wood products considered as the key structural and appearance products at the concept phase of a new buildings design, and therefore dramatically increasing the chances of them being utilised in the final build; this will be particularly important if the industry's activities are successful in having the National Construction Code modified to allow timber construction up to 25m effective height under the deemed to satisfy provisions for apartments, hotels and office buildings.

FWPA has suggested as part of its future business case the proposal for a *WoodSolutions Technical Wood Support Program* (TWSP)[2] consisting of

- a national team of ten to twelve experienced technical building design professionals (e.g. structural engineers, architects, construction managers) based out of regional offices throughout Australia;
- to provide wood related inspiration, technical advice, education and support to practicing building professionals;
- resulting in maintaining current wood markets and an increased wood specification in new commercial, institutional and multi-residential projects.

The aim is to provide the technical support capacity to:

- protect existing markets (new residential and alterations & additions) – each 1% market loss is a loss of $34M, and
- grow new market opportunities in the multi-residential and commercial sectors – each 1% market share gain is estimated to be around $50M

Whilst a national program is ultimately envisaged and desired, it has been proposed that a three year pilot program be trialled to test the concept utilising four experienced building design and building professionals based out of Victoria in this first phase. The Wood Products Victoria Board has committed to participation in this trial and has agreed that if the program was to be supported by industry to withdraw its technical representation exposure in favour of the WoodSolutions program, provide access to its technical 'staff' and provide some seed-funding to the overall program. At this stage it is envisaged that this TWSP pilot project would not form part of FWPA's current agreed project delivery plan under its currently approved investment plans but would be an 'industry based project' with contributing stakeholder funding administered through the new FWPA/Federal Government funding arrangement to allow leverage of the matching government dollars (1 to 1) against industry funds (due to be available in 2015/16 financial year). Industry stakeholders will be invited to participate and they will be the exclusive beneficiaries of activities, outputs and new market leads generated out of the project. **This proposed *WoodSolutions Technical***

[2] Described under the FWPA *Business Case for Future FWPA Investments 2013-2018*

***Wood Support Program* will be critically important for the future prosperity of the wood products sector and should be viewed as a high priority for implementation.**

18. Can forest certification be better leveraged to achieve stronger demand and better prices for Australian forest products and, if so, how?

Certification assists in addressing concerns of wood legality and legitimacy and it is particularly beneficial in assisting industry in demonstrating responsible practices. Expectation of 'forest certification' today in Australia is pretty much a given and the bulk of wood products produced in Australia come from certified forests (not so the case with imported products). There is however a far lower expectation around the need for full 'chain of custody '(CoC) certification particularly for Australian produced wood products. The fact is that CoC certification is not a demand requirement at present from most consumers and as is not currently a major influencer of specification or purchase behaviour. It is thought to be unlikely that forest or CoC certification will be able to be leveraged for better prices. Rather forest certification will more become a basic level of expectation for wood based products. It will therefore become more of an issue in the future for imported products in efforts to protect against illegal timber imports. Some procurement focussed schemes such as the Green Building Council of Australia GreenStar program will continue to require CoC certification however it is felt unlikely for most products that this will offer opportunities for better prices rather more opportunity for product specification preference.

Further information or contact

For further information or discussion on issues raised in this submission please contact:

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APPENDIX A – Latrobe City Council Wood Encouragement Policy, as endorsed by MAV

MAV
MUNICIPAL ASSOCIATION OF VICTORIA

FORM

MAV State Council Meeting – 15 May 2015

To submit a motion for consideration by State Council on 15 May 2015, please complete this form and email to State Council, ***no later than Friday 17 April 2015***. Please note, deadlines are strictly observed.

MOTION
[INSERT NAME OF MOTION]
Submitted by: *Latrobe City Council*

MOTION:

That the MAV endorse Latrobe City Council's Wood Encouragement Policy and accept it as a policy of the MAV.

RATIONALE:

Latrobe City Council recognizes the importance of the timber industry to the Victorian economy. Central to Council's commitment to job retention and creation is supporting significant local industry in order to secure jobs and leverage further investment in the timber industry. Council also recognizes that timber is a renewable and sustainable resource

In what is an Australian first for local government, Latrobe City Council adopted a Wood Encouragement Policy on the 15th December 2014. The Policy Goals are:

- To stimulate sustainable economic development within the Gippsland timber and wood products industry and encourage value adding products within the timber industry.
- To encourage the use of wood in the construction and fit out of Council buildings and infrastructure.
- To recognise all of the benefits that make wood a smart choice for Council buildings and infrastructure.
- To share information and encourage education regarding the benefits of using wood in construction and fit out of buildings and infrastructure.
- To demonstrate local and national leadership by enacting the Wood Encouragement Policy on Council buildings and infrastructure.
- To encourage the use of wood in demonstration projects across the municipality.
- To align with opportunities for state and federal funding.
- To reinforce Council's preference for quality wood buildings in the development of briefs for projects.
- To promote the industry as a renewable resource, capturing the environmental benefits of the resource.

Council seeks to promote the use of timber and timber engineered products throughout Victoria and the MAV is the appropriate organization to advocate to Local Government. Latrobe City Council is amenable to the MAV altering the wording of the Policy to reflect Victoria rather than Gippsland.

See also collective Japanese Government approach to use of wood in public buildings at:
http://jsfmf.net/english/policy/woodproact/woodproact.htm