



Australian Paper

a member of the Nippon Paper Group

Australian Paper Submission

To

**The Finance and Public Administration
References Committee**

**Inquiry into
Commonwealth Procurement Procedures**

DECEMBER 2013

Senate Finance and Public Administration Committees
PO Box 6100
Parliament House
Canberra ACT 2600

Phone: +61 2 6277 3439
Fax: +61 2 6277 5809
fpa.sen@aph.gov.au

Summary

The Commonwealth Government, including its Department's, Agencies and Institutions is the largest user of office and printing papers in Australia. The procurement decisions made by the Commonwealth Government in this area have a direct impact on Australian Paper, and the thousands of Australian's we employ, as the only manufacturer of these papers in Australia.

The Commonwealth Government has many policies and procedures already in place that favour value for money, along with better environmental and social outcomes for Australia. These policies should naturally favour Australian Paper's products in delivering superior economic value to Australia versus imports, significant employment of Australians versus imports, and production under Australia's World-leading environmental regulations which are also not matched by the majority, if any, of the imported competition.

However, the reality is quite different. One of Australian Paper's well known products is Reflex Copy Paper. The Commonwealth Government procures 55% of its copy paper requirements from Europe and Asia. That's 1.2 imported reams of copy paper for every Australian made ream.

Whilst is this?

FTA and WTO obligations are cited. Australian Paper understands the need for Australia to comply with its commitments under these important terms of trade. The role of NGO's in helping the Government to make procurement decisions is less clear.

Regardless of the cause, there is a clear solution, and, unlike the automotive industry, this does not require ongoing hand-outs from Government.

Accordingly, Australian Paper recommends that the Commonwealth Government more broadly assess and enforce recognition of the economic, social and environmental values of all aspects of the Government's paper and printing services procurement decisions across all of its Departments, Agencies and Institutions.

The good news is that the principles to achieve this are already embedded in the Government's existing policies.

Australian Paper

Our Business

Australian Paper is Australia's only manufacturer of copy paper (including the market leading Reflex brand), printing, envelope, packaging and security papers. Australian Paper is owned by Nippon Paper Industries, Japan's largest paper making group. We operate 2 paper manufacturing facilities; the Maryvale Mill in Victoria's Latrobe Valley and the Shoalhaven Mill in Nowra, New South Wales as well as Australia's largest envelope and paper based stationery manufacturing operation in Preston, Victoria.

Paper manufacturing is a capital intensive industry requiring consistent investment. The capital equipment at the Maryvale site alone has a replacement value of well above \$3 billion and our 2008 pulp mill upgrade at >\$500m was the single largest private capital investment in Victoria for that decade.

Over the past 15 years, Australian Paper has made capital investments well over 1 billion dollars in its paper manufacturing business, with a new paper machine commissioned at the Maryvale Mill in 1998 (~\$330m), the new low-environmental-impact bleached pulp mill commissioned in 2008 (~\$500m) a waste paper recycling plant currently under construction (~\$90m) in addition to numerous smaller projects totalling well over \$400m to keep all of Australian Paper's manufacturing assets and associated papers Internationally competitive in every respect. Australian Paper has, and continues, now with the support of NPI Japan, to 'put it's money where it's mouth is' in supporting Australian manufacturing.

The paper industry is one of Australia's few, and perhaps only, major regionally based manufacturing industries. Consequently the industry drives significant social and economic benefits for Australian communities. We take pride in being an important Australian manufacturer and our Maryvale Mill is the largest private employer in Victoria's Latrobe Valley. Recent analysis from the Western Research Institute shows that Australian Paper generates more than \$750 million annually to Australia's GDP, supports approximately 6,000 flow on full-time jobs, and contributes more than \$450 million in household income per annum.

Australian Paper also provides significant revenue to all levels of Government; equivalent to \$1.81 for each and every A4 ream of copy paper that we make and totalling \$432 Million in 2012. Value that we feel can't, but is, being ignored in the Government's procurement decisions.

In relation to the environmental dimension of sustainability, Australian Paper's Maryvale Mill is the largest generator of renewable base load energy in Victoria. Less than 5% of the Maryvale Mill's energy requirements are met from coal fired sources. The water consumption per tonne of paper produced has been reduced by 64% since 1980. We have also halved our CO2 emissions per tonne of paper produced since 1980.

Australian Paper is currently building a \$90 million state of the art paper recycling plant at Maryvale; the only one of its type in Australia. From mid-2014 this plant will remove between 80,000 to 85,000 tonnes of post-consumer wastepaper from Australian landfill or export per annum; equivalent to a pile of paper the area of a tennis court, 1 km high – that's over three times the height of Melbourne's tallest building the Eureka Tower. Coincidentally, this will also triple Australian Paper's current usage of recycled fibre.

To make this investment work, Australian Paper faces a major challenge to grow market demand for Australian made, recycled office and printing paper such as Australian 80% Recycled and Reflex 100% Recycled, FSC certified copy paper. The Commonwealth Government has already recognised the sustainability advantages of locally based recycling by providing Australian Paper with \$9.5 million funding towards the construction of it's local paper recycling plant.

We agree in the context of Australia's international trade agreements that local paper manufacturing must be competitive with imports and Australian Paper continues to invest in its local manufacturing operations. However, where Australian made products are better aligned with Government policy and procurement guidelines, and the best interests of Australia, we would expect that these advantages be fully considered in procurement decisions undertaken by Government agencies.

Terms of Reference for this Inquiry

1. The current effectiveness of procurement policies and procedures

The Department of Finance issued Commonwealth Procurement Rules; achieving value for money (CPRs) on July 1, 2012.

On page 15, the CPRs state:

The price of the goods and services is not the sole determining factor in assessing value for money. A comparative analysis of the relevant financial and non-financial costs and benefits of alternative solutions throughout the procurement will inform a value for money assessment. Factors to consider include, but are not limited to:

- a. fitness for purpose;*
- b. a potential supplier's experience and performance history;*
- c. flexibility (including innovation and adaptability over the lifecycle of the procurement);*
- d. environmental sustainability (such as energy efficiency and environmental impact); and*
- e. whole-of-life costs.*

Office Paper

Australian Paper is concerned that despite the above guidelines, the concept of value for money is being applied too narrowly within FMA Act Government agencies. As the CPRs state, value for money should encompass a range of considerations including environmental sustainability, supplier experience and performance, innovation and adaptability and whole-of-life costs.

All of Australian Paper's competitors are imported; the majority from Indonesia, Thailand and China. The regulatory framework governing the sustainability of manufacturing in these countries is far less rigorous than Australian requirements. Australian Paper also competes with recycled papers from Europe, particularly within Australian Government FMA Act Agencies. Choosing imported recycled paper reduces landfill in countries such as Germany or Austria but does nothing for our local situation.

External Printing Paper

The 2009 ANAO 'Green Office Procurement and Office Management' Audit report (2009) shows that the Commonwealth Government purchased around 6,500 tonnes of office paper in 2008, and that paper indirectly purchased for printed material is estimated to be 9 times this amount, equating to 58,000 tonnes per year.

The Western Research Institute prepared a report in 2013 that estimates Government revenues from paper made by Australian Paper of \$724/tonne. The increase in Government revenues that

would be achieved if the Commonwealth Government specified Australian Paper for all its printing needs would be greater than \$42 m per year.

Australian Paper believes that all Commonwealth Government tenders and general purchases related to printed materials, including the establishment of Print Panels such as that managed by the Department of Human Services, should be required to consider the contribution to Government of revenues arising from the direct and indirect (e.g. through printing specifications) purchases of paper associated with the printed end-products.

2. The effectiveness of any policies or procedures designed to preference Australian goods and services

In addition to the non-financial dimensions of Value for Money outlined in the CPRs, the Australian Government has adopted environmental and social policies which incorporate principles of sustainable procurement which are particularly relevant to locally manufactured recycled paper:

- **The National Waste Policy** aims to avoid the generation of waste, reduce the amount of waste for disposal, manage waste as a resource, ensure that waste disposal, recovery and reuse is undertaken in an environmentally sound manner and contribute to broader economic, environmental and social goals. Imported recycled paper which only delivers these outcomes for the country from which it originates cannot deliver the same benefits as locally made recycled paper.
- **The ICT Sustainability Plan** mandates minimum of 50% recycled copy paper for FMA Act Agencies, on the basis of improved waste management outcomes. Again, the local landfill benefits of Australian made recycled paper will deliver enhanced environmental benefits for Australia over imported recycled papers which also have a much larger transport footprint based on shipping from their country of origin. Australian Paper is already stockpiling significant volumes of locally generated wastepaper whilst it is building its recycling plant at Maryvale. This waste would otherwise have ended up in local landfill.

The Australian Government's CPRs and sustainability policies already allow Government procurement choices to support manufacturers which demonstrate superior local environmental outcomes in comparison to imported alternatives. However, despite this, there are a number of FMA Act agencies which choose to support imported recycled paper from Europe instead of recycled paper made here in Australia including the Department of Environment, The Department of Treasury and the Department of Foreign Affairs and Trade.

Australian Paper recommends that the non-financial dimensions of value for money be taken into account by both FMA Act and CAC Act Australian government agencies and also that all agencies take into account the National Waste Policy and ICT Sustainability Plan when procuring copy paper as well as paper used by external printers on behalf of these agencies.

We believe that this will allow Australian Paper to demonstrate the inherent advantages of Australian made recycled product within the context of the existing CPRs and broader Government policies relating to sustainability.

Submitted by:

Mr Julian Mathers

GM – Australian Paper