



## Submission No 7

### **Inquiry into Illegal Logging Prohibition Bill 2011**

**Name:** Mr John Halkett  
Technical Manager

**Organisation:** Australian Timber Importers Federation Inc  
PO Box 69  
Potts Point NSW 1335

**On behalf of:** Australian Timber Importers Federation (ATIF)  
Timber and Building Materials Association (TABMA)  
Timber Merchants Association (TMA)  
Timber Veneers Association of Australia (TVAA)  
Window and Door Industry Council (WADIC)



## **Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade**

### **Inquiry into the *Illegal Logging Prohibition Bill 2011***

**1 May 2012**

#### **1.0 Purpose**

This submission has been prepared collaboratively by the Australian Timber Importers Federation Inc; the Timber and Building Materials Association (Aust) Ltd; the Timber Merchants Association; the Timber Veneer Association of Australia and the Windows and Doors Industry Council. This trade association alliance represents all of Australia's major timber importers, most other importers of timber and other wood-based products and related supply chain businesses. See Appendix 1 for further information about the parties to this submission.

The objective of this submission is to ensure that the Joint Standing Committee on Foreign Affairs, Defence and Trade is appreciative of key issues identified by the leading industry associations who are party to this submission.

This submission seeks to address key issues detailed in this submission and related challenges that include:

1. The Australian economy increasingly needing to be able to freely trade and import timber and wood-based products to assist economic growth. The proposed legislation needs to complement, rather than restrict this objective.
2. A recognition that imported timber and wood-based products are essential because of their cost and utility benefits, or because there are simply no Australian-produced substitute products. The proposed legislation needs to support rather than diminish the development of an effective timber product importing sector.
3. Timber and wood-based product importers accept that currently and in the future, they are required to bear the costs of maintaining due diligence, documentation, auditing and accreditation control systems. However, it is asserted that where elements of such systems do not exist sufficient to meet the requirements of the proposed legislation; and where the compliance standard is now raised to reverse onus on importers to prove legality against the risk of personal criminal prosecution, in addition to financial penalties on

Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

their business, the Government should fund such development to give effect to their broader illegal logging policy goals.

4. To assist in maintaining trade in essential imported timber and wood-based products from legal source supplier country capacity building, notably in Indonesia and Papua New Guinea (PNG), needs to be actively supported by the Government.

## 2.0 Scope

This submission sets out matters and concerns related to the *Illegal Logging Prohibition Bill 2011* (the Bill) within the terms of reference<sup>1</sup> of the inquiry set out by the Joint Standing Committee on Foreign Affairs, Defence and Trade identified and outlined herein by parties to this submission.

The submission provides a commentary on the timber product importing industry, including its contribution to the Australian economy in relation to housing and jobs; the predicted industry costs of the measures contained in the proposed legislation; probable impacts on markets for timber, and government funding responsibilities related to the implementation of the proposed legislation. The submission also concludes that, given the minor volume of timber products imported from 'high risk' countries, the Bill is a substantial over-reaction in dealing with the issue.

## 3.0 Summary and key points

### 3.1 Summary

Australia is a net importer both of softwood and hardwood timber products. Consumption trends for timber products for 2009-10 confirm that the value of timber imports increased by 6% to almost \$430 million and that volume increased by 13% to about 750,000 cubic metres in line with increased domestic demand for timber products. It is apparent that imported timber products are growing in significance and will be central to the performance of Australian building and construction industries in the future.

<sup>1</sup> Concern over the international implications of the bill which have been expressed by Canada, Indonesia, Malaysia, New Zealand and Papua New Guinea in their submissions to the Senate Rural and Regional Affairs and Transport Legislation Committee inquiry. (House of Representatives Selection Committee, Report No. 49).



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

If it is assumed that half of the timber product imported into Australia sourced from perceived high risk countries are derived from illegally logged material that would equate to 5% by volume of total annual timber imports being 'potentially suspect' or possibly illegally logged. The corollary is that other categories of timber product imports, predominantly softwood timber products supplied by low risk countries, such as New Zealand, Canada, US, Chile and the EC countries now supply about 95% of the total volume of timber product imported into Australian markets.

Based on this analysis it seems reasonable to assert that the Bill is a substantial over-reaction to the issue and will have a range of unfortunate consequences, such as potentially impacting on the cost competitiveness and willingness of importers to continue to import timber products where legality assurance has never been raised as an issue in the past.

The Bill runs the risk of making timber products less competitive against other building products that are less environmentally friendly, and consequently of causing social, economic and employment disruption where an abrupt shift away from many timber products is required in response to a new supply constrained market.

Imported timber products will be central to the performance of the domestic building and construction industries into the future. This reality will include keeping housing affordability under check and supporting thousands of building and construction industry jobs. This is an essential role of the timber importing industry if the country is going to work its way out what is shaping up to be a substantial housing shortage.

The Housing Industry Association (HIA) estimates that as at June 2011 Australia had a cumulative shortage of 229,500 dwellings. If Australia is going to deal not only with its housing construction backlog, but with new housing starts that are likely to exceed 180,000 dwellings a year timber product importers will be key players.

The lack of development of associated regulations is an important issue and was central to the Opposition's proposed amendment to the Bill, as outlined in the second Senate Rural and Regional Affairs and Transport Legislation Committee report. Equally the Government's lack of capacity building in perceived high risk countries and lack of funding of Bill-related advocacy are matters of concern.

A fundamental flaw in the Bill is that rather than it providing certainty or requiring compliance by doing and knowing things that can be practically done and known, it creates infinite uncertainty and requires compliance by doing things that cannot necessarily be done and knowing things that cannot be known.



### 3.2 Key points

#### Timber product imports expanding

1. Imported timber and wood-based products are growing in significance and will be central to the performance of Australian building and construction industries in the future.
2. Australia is a net importer both of softwood and hardwood timber products. Consumption trends for timber and wood-based products for 2009-10 confirm that the value of timber imports increased by 6% to almost \$430 million and that volume increased by 13% to about 750,000 cubic metres in line with increased domestic demand for timber products. The 2010-11 year represents a decade high in the volume of timber product imports.

#### Timber import trends and legality

3. If it is assumed that half of the timber product imported from perceived high risk countries were sourced from illegally logged material that would equate to 5% by volume of total timber imports being 'potentially suspect' or possibly illegally logged. The corollary is that other categories of timber product imports, predominantly softwood timber product supplied by low risk countries, such as New Zealand, Canada, US, Chile and the EC countries now supply about 95% of the total volume of timber product imported into Australian markets.

Based on this analysis it seems reasonable to assert that the Bill is a substantial over-reaction to the issue and will have a range of unfortunate consequences, such as potentially impacting on the cost competitiveness and willingness of importers to continue to import timber products where legality assurance has never been raised as an issue in the past.

4. Australian domestic timber production is presently 'flat' and new plantation establishment has stalled. Timber imports are the only realistic immediate and medium term solution to timber and wood-based product supply constraints.
5. The prospect of a continuing strong Australian dollar together with increasing manufacturing and importing sophistication is likely to see imported timber products grow in significance and be central to the performance of the domestic building and construction industries into the future. This reality will include keeping housing affordability under check and supporting thousands of building and construction industry jobs. This is an essential role of the



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

timber importing industry if the country is going to work its way out what is shaping up to be a substantial housing shortage.

#### Cost of legality verification compliance

6. The Bill runs the risk of making timber products less competitive against other building products that are less environmentally friendly.
7. It is estimated that the cost, as a percentage of the imported wholesale value of timber products to Australian larger importers, assuming an efficient legality verification compliance mechanism would be in the order of 2.5-4.5%. Percentage costs for smaller and medium sized importers may be significantly higher.

#### Use of imported timber products in building and construction

8. ABS input-output tables show that imported manufactured sawmill products and other manufactured wood products contribute \$424 million of output in residential building construction, non-residential building construction and heavy and civil engineering construction. A further \$264 million of output from construction services can also be attributed to imported manufactured sawmill products and other manufactured wood products. The work done in generating this output is undertaken by the domestic workforce.
9. Imported timber products also make a significant contribution to non-residential construction, heavy and civil engineering and building services sectors in Australia.

#### Australia's building and construction labour force

10. Imported timber products are important in contributing to employment in building and construction industries and to employment in the timber industry supply chain. The Australian Bureau of Statistics (ABS) labour force data shows there was a construction labour force of 1,047,400 persons in the August quarter of 2011 (within ANZIC division E "Construction"). However, the output of the construction sector is dependent on a far broader supply chain that has a correspondingly larger labour force.
11. ABS input-output tables also show that imported wood products account for around 10% of material inputs into the construction industry. This implies that imported manufactured wood products may result in 28,990 people working directly in construction and a further 80,450 people in occupations that



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

provide inputs into the construction process. The labour force attributable to imported wood products has the potential to be larger if tertiary occupations are also taken into account.

### Housing supply

12. Using estimates of the annual gap between underlying demand and dwelling completions, HIA estimates that as at June 2011 Australia had a cumulative shortage of 229,500 dwellings. If Australia is going to deal not only with its housing construction backlog, but with new housing starts that are likely to exceed 180,000 dwellings a year timber product importers will be key players.

### Lack of development of regulations and completion of reports

13. The lack of development of associated regulations is an important issue and was central to the Opposition's proposed amendment to the Bill, as outlined in the second Senate Rural and Regional Affairs and Transport Legislation Committee report. Also the failure of the Government to complete and disclose key background papers, such as the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) report that will assist in determining the definition of *regulated timber products* in the Bill has resulted in an escalating lack of confidence by the industry and supplier countries in the development of the Bill.

### Lack of support for supplier country capacity building

14. A major political imperative behind the Government's illegal logging policy and proposed legislation is addressing illegal logging activity, poor governance and corruption in perceived high risk countries in the Asia-Pacific region.
15. Among the challenges in implementing the Government's illegal logging policy is the lack of government and timber industry-related intelligence, notably in Indonesia. This means that the Australia Government has a reduced capacity to understand the development of pertinent policy; be informed about actions initiated by the Indonesian Government to improve legality verification, and better understand and contribute to the development of Australian Government-sponsored initiatives to address aspects of illegal logging.
16. A continuation of a lack of intelligence gathering capacity is unsatisfactory, especially during the period when the Australia Government is seeking to enact its illegal logging legislation and to ensure that legality verification measures in higher risk supplier countries and by Australian importing



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

companies meet the requirements of the Government's policy goals and legislation.

### Government avoidance of funding obligations

17. While it can be argued that the ongoing operational costs associated with the Act should be borne by the industry, the considerable set-up costs and initial implementation costs should be met by the Government.

18. In addition the Government should provide funding for:

- A timber products supply chain and consumer advocacy program.
- Providing financial support to timber product supplier countries, including assisting importers to overcome the cultural, language and legal barriers in communicating the requirements of the Bill.
- Follow the lead of the EU, US and Japan in assisting to improve capacity building and intelligence gathering in perceived high risk countries.

## 4.0 Timber product imports expanding

Australia is a net importer both of softwood and hardwood timber products. Imports have grown strongly from the fourth quarter of 2006-07, driven by solid economic growth and an appreciation of the Australian dollar<sup>2</sup>.

Based on ABARES<sup>3</sup> data, consumption trends for timber and wood-based products for 2009-10 confirm that the value of timber imports increased by 6% to almost \$430 million and that volume increased by 13% to about 750,000 cubic metres in line with increased domestic demand for timber products<sup>4</sup>. The 2010-11 year represents a decade high in the volume of solid wood imports. In terms of both volume and value, sawnwood consistently makes up the majority (typically around 65 per cent) of timber product imports (see Diagram 1).

<sup>2</sup> *Agricultural commodities Vol 1 No 1, September quarter 2011*, ABARES, Canberra, 2011.

<sup>3</sup> [http://www.abares.gov.au/publications\\_remote\\_content/publication\\_topics/forests](http://www.abares.gov.au/publications_remote_content/publication_topics/forests)

<sup>4</sup> The volume of 'sawnwood' imported into Australia in the September and December quarters of 2010 was 31 per cent higher than in the corresponding period in 2009. Imports from New Zealand, traditionally the largest supplier of softwood sawnwood to Australia, accounted for a relatively small proportion of this increase, while imports from European countries accounted for the majority of the increase.





## Diagram 1

### Annual Importation of Solid Wood Products

Source: ABARES National Plantation Inventory, November 2011



Note: Solid wood products refers to the total of wood-based panels and sawnwood products.

## 5.0 Timber import trends and legality

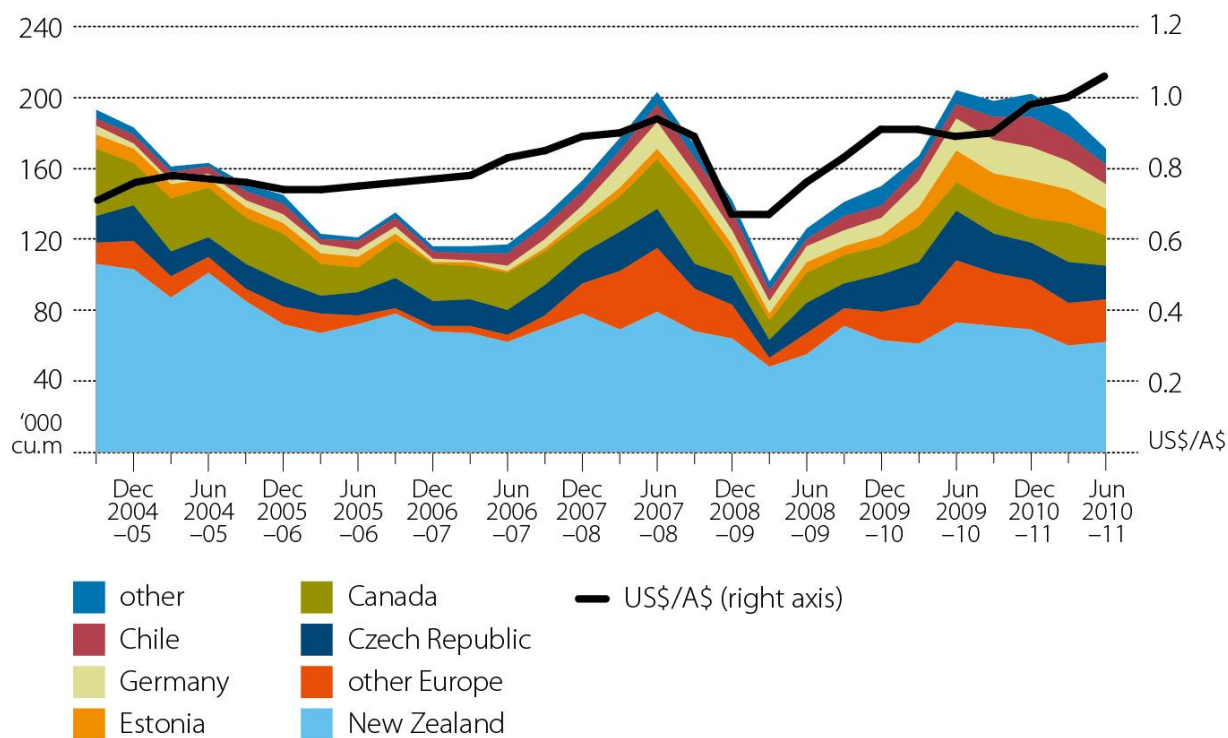
Over the last decade Australia has consumed around 7,150,000 cubic metres of solid wood products each year<sup>5</sup>. Typically domestic consumption of wood products outstrips domestic production by between 5 and 10% per year. The remaining 5 to 10% is sourced from imports and over the last decade an average of \$697 million of solid timber products has been imported each year.

The composition of Australia's softwood timber imports has changed since 2004-05. Imports from New Zealand have steadily declined in contrast to increased imports from Europe and Chile. While still Australia's biggest supplier, the volume of imports from New Zealand has fallen considerably, accounting for 35% of total import volumes in 2010-11 compared with 57% in 2004-05 (see Diagram 2).

<sup>5</sup>ABARES Australian forest and wood product statistics, November 2011.

## Diagram 2

Quarterly imports of softwood timber products by Australia and Australian exchange rate, 2004-05 to 2010-11



Source: ABARES<sup>6</sup>

Based on ABARES data in Diagram 2 and in Appendix 2 it is reasonable to assume that the percentage of the current volume of 'potentially suspect' or possibly illegally logged timber product imports is in the region of 5%. Perceived high risk countries, (PNG, Indonesia, Malaysia and China) are included in the *other* category in Diagram 2 (top blue band) and sum to 10% of total timber imports in Appendix 2.

If it is assumed that half of the timber product imported from perceived high risk countries were sourced from illegally logged material that would equate to 5% by volume of total timber imports being 'potentially suspect' or possibly illegally logged.

The corollary is that other categories of timber product imports, predominantly softwood timber product supplied by low risk countries such as New Zealand, Canada,

<sup>6</sup> ABARES Australian forest and wood product statistics, November 2011.

Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

US, Chile and the EC countries now supply about 95% of the total volume of timber product into the Australian market.

Based on this analysis it seems reasonable to assert that the Bill is a substantial over-reaction to the issue and will have a range of unfortunate consequences, such as potentially impacting on the cost competitiveness and willingness of importers to continue to import timber products where legality assurance has never been raised as an issue in the past.

## 6.0 Australian plantation establishment trends

Over the past decade, new plantation establishment in Australia has fluctuated. In 1999-00 the area of new plantations being established was around peak levels – at 136,490 hectares. The following three years saw successive declines in yearly levels of plantations being established, down to 42,320 hectares at the end of that period. Plantations established in 2006-07 rose to 86,600 hectares coinciding with the peak in activity of the forestry managed investment scheme sector. These plantations comprised predominantly hardwood (broadleaf) species. Since then, levels have been declining, with 2009-10 representing a record low, with new plantations established falling to 23,500 hectares. Hardwood plantations have made up the majority of new plantations since 1999-00. Their establishment was the main driver in total plantation expansion.

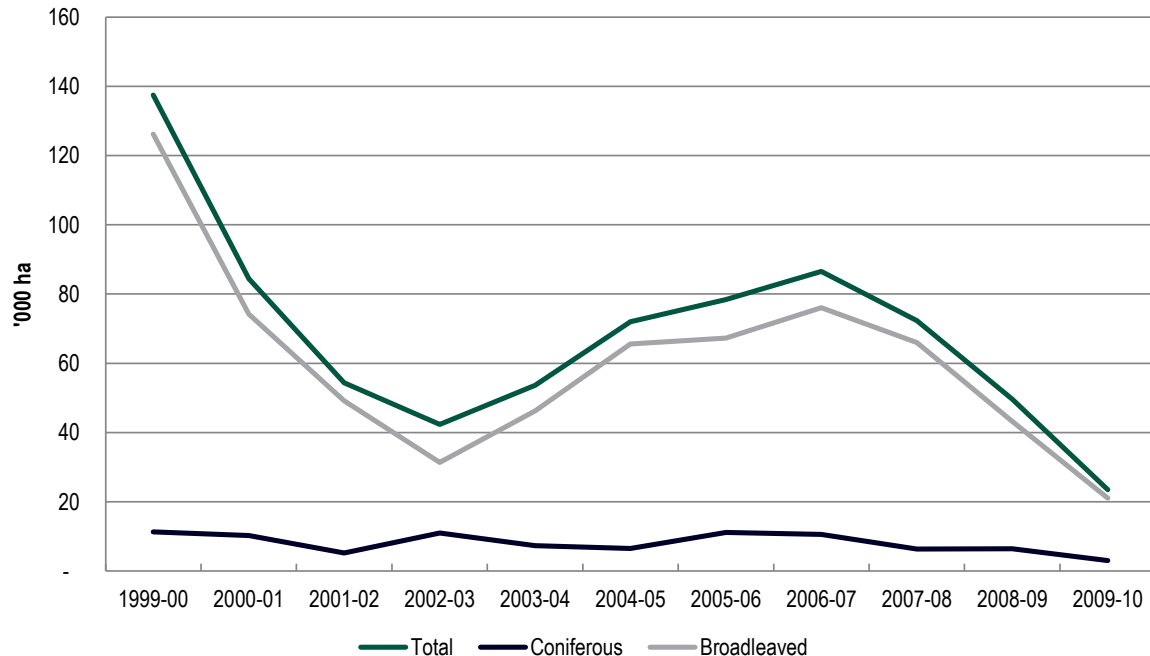
The establishment trend in new softwood (coniferous) plantations has been irregular over the past decade. Between 1999-00 and 2007-08, the area of new softwood plantations established fluctuated between 5200 and 11,000 hectares. Since then new plantations have fallen below these levels. The 2009-10 year saw the establishment of coniferous plantations fall to 3000 hectares (see Diagram 3).



### Diagram 3

## Annual Plantations Established

Source: ABARES National Plantation Inventory, November 2011



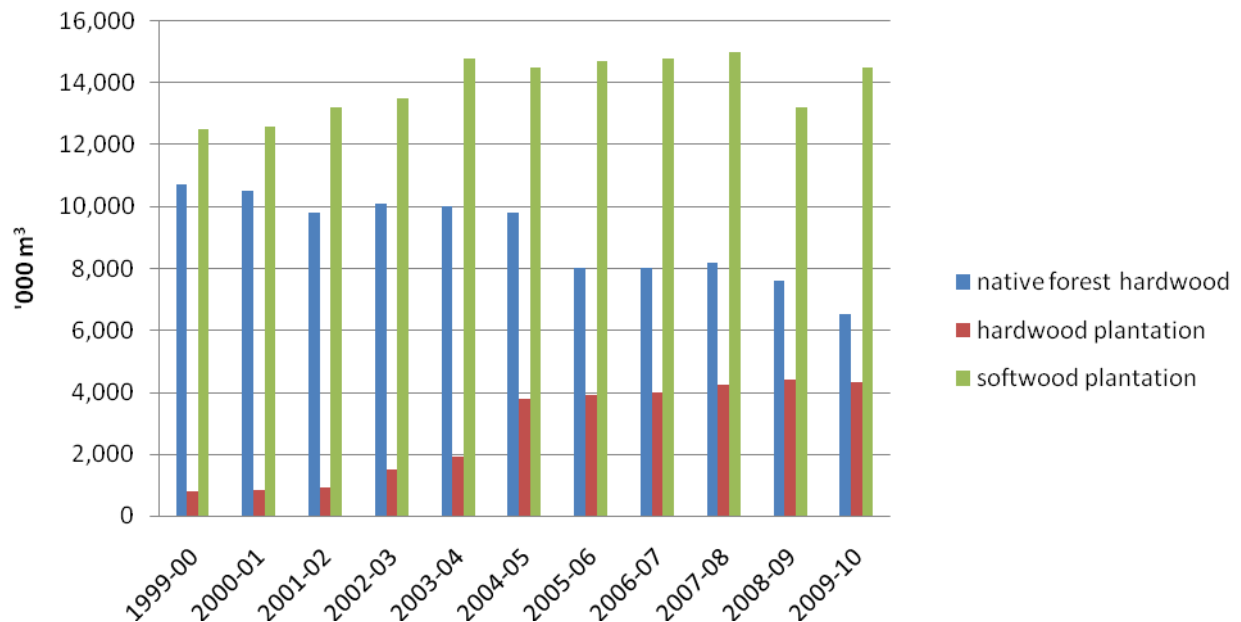
An impending domestic timber supply shortage can only be overcome in the long term by an increase in plantation establishment that would not, however, in the case of softwood plantations, have a positive impact for at least 25 years. Timber product imports are the only realistic immediate and medium term solution to supply constraints.

Following a 10% decline in 2008-09, the total volume of logs harvested in Australia in 2009-10 remained around the same at just over 25 million cubic metres (see Diagram 4). However, while the total harvest remained 'flat', there was considerable difference in trends between forest sectors. The volume of softwood logs showed some recovery in 2009-10 partly offsetting the 18% fall in native forest-sourced logs. The volume of hardwood plantation-sourced logs has remained relatively constant since 2004-05. The majority of this harvest has been directed at the woodchip export market<sup>7</sup>.

<sup>7</sup> Australian forest and wood products statistics September and December quarters 2010 ABARES 2011.

## Diagram 4

### Australian log harvest



Source: ABARES 2011

## 7.0 Market outlook

The prospect of a continuing strong Australian dollar together with increasing manufacturing and importing sophistication is likely to see imported timber products grow in significance and be central to the performance of the domestic building and construction industries into the future. This reality will include keeping housing affordability under check and supporting thousands of building and construction industry jobs. This is a critical element of the timber industry if the country is going to work its way out what is shaping up to be a substantial housing shortage.

This is especially so when it is noted that the medium term prospects for expanding the domestic production of timber products in categories like structural pine, panel products and hardwood boards are limited. This has increased the focus on the importance to the Australian economy of an efficient and strong timber product importing sector.



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

If Australia is going to deal not only with its housing construction backlog, but with new housing starts that are likely to exceed 180,000 dwellings a year timber product importers will be key players.

## 8.0 Cost of legality verification compliance

The Bill runs the risk of making timber products less competitive against other building products that are less environmentally friendly.

It is difficult to be precise about the likely timber product legality verification compliance costs of the Bill without knowing the specifics of the regulations yet to be drafted and against which timber product importers would be required to comply. However, the literature, plus experience with compliance against various certification systems in Australia provides some guidance to the quantum of these costs.

Legality verification compliance costs, expressed as a percentage of business turnover, is affected by business size, volume of timber product imports, number of product lines, product diversity and the number of source countries for any particular importer. This has been an issue for Forest Stewardship Council (FSC) and the Australian Forestry Standard (AFS) chain of custody certification where merchants 'down' the supply chain with modest demand/sales of certified products have to bear disproportionately high licensing, administration and audit costs. This is a matter that has been recognised by certification bodies and is presently under review.

The costs of legality verification or other types of certification are regarded by industry companies as important factors to consider in relation to competitiveness of timber products relative to other building products. The compliance costs incurred by companies relate to:

1. The initial one-off costs to implement verification or other compliance systems and associated administration, storage and logistics costs.
2. The ongoing costs of licensing, maintaining internal administration and management systems, due diligence assessments, reporting, external audit and rectification.

The costs of legality verification compliance are also likely to be influenced by:

1. Considerations related to whether or not supplier countries are above a predetermined illegal logging risk assessment ranking.



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

2. The extent to which companies along the supply chain have due diligence and/or other procurement practices already in place.
3. Communication, interpreter and liaison costs with suppliers to ensure they understand the requirements of the Australian legislation.

European Union-sponsored studies suggest that statutory options for imposing legality verification due diligence obligations on companies as a market entry prerequisite based on delivered (to sawmill) log prices would increase the per cubic metre prices between 0.5% increasing to about 2% for small business enterprises.<sup>8</sup>

Translating these to sale figures for timber products it is estimated that it would result in an increased sales price of 1-2%. Separately, in an impact assessment of the European Union's proposed timber industry due diligence options Chatham House assessed estimated costs related to import legality 'tests' would be in the order of 3.7% of imported value.

A 2008 New Zealand study related just to merbau timber products indicated that the cost of legality verification is expected to add about 3% to prices.

Similar costs could be anticipated for Australia companies. However, it should be noted that individual company costs will vary depending on the verification system adopted, as well as issues of scale and the 'certification' requirements of other customers in the supply chain and related matters. For example, because the costs of fully verified legal logs in Indonesia can be double that of non-verified logs there are obvious consequences for the price of products manufactured from such logs imported into Australia (or elsewhere).

It is apparent that larger timber product companies in Australia generally already have legality verification and/or certification procedures in place together with staffing and other resources already available to dedicate to the necessary training, auditing and other costs. In many cases small and medium-sized companies do not have the capability or resources to devote to auditing of legality unless they have specific markets for which they gain a premium or unless it is a market access issues.

It is estimated that the cost, as a percentage of the imported wholesale value of timber products to Australian larger importers, assuming an efficient legality verification compliance mechanism would be in the order of 2.5-4.5%.

<sup>8</sup> Draft Generic Code of Conduct for the Purchase & Supply of Legally Logged Timber and Wood - based Forest Products, Timber Development Association , 2009, [http://www.daff.gov.au/\\_\\_data/assets/pdf\\_file/0008/1875104/TDA\\_-\\_Draft\\_generic\\_code\\_of\\_conduct.pdf](http://www.daff.gov.au/__data/assets/pdf_file/0008/1875104/TDA_-_Draft_generic_code_of_conduct.pdf)



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

In many cases small and medium-sized companies do not have the capability or resources to devote to auditing of legality unless they have specific markets for which they gain a premium or unless it is a market access issues. It is of concern that a recent report<sup>9</sup> on the European Timber Regulation's Due Diligence system states that: "SME's<sup>10</sup> (Small and Medium Enterprises) do not have the technical, financial, financial and human resources to carry out complex (Illegal Logging) Due Diligence"

Compliance costs for complex and composite products, for products with long supply chains and multiple country manufacture, for importers of a diverse range of multiple products and species from a large number of countries and sources, are likely to be considerably higher than costs for timber importers of just a few species and/or product lines from a limited number of countries.

## 9.0 Use of imported timber products in building and construction

ABS input-output tables show that imported manufactured sawmill products and other manufactured wood products contribute \$424 million of output in residential building construction, non-residential building construction, and heavy and civil engineering construction. A further \$264 million of output from construction services can also be attributed to imported manufactured sawmill products and other manufactured wood products.

Contemporary data published by ABARES shows that there was a total of \$762 million worth of solid wood products imported into Australia in the 2010-11 financial year. If the share of total wood products used by the construction industry sectors is considered an accurate representation of the use of imported wood products then an estimated \$396 million of the imported solid wood products were used by the residential home construction sector. The remainder was used by the non-residential construction, heavy and civil engineering construction, and building services sectors (see Diagram 5).

<sup>9</sup> "Support study for development of the non-legislative acts provided for in the Regulation of the European Parliament and of the Council laying down the obligations of operators who place timber and timber products on the market - Final report", EU DG Environment - coordinated by the European Forest Institute (EFI), [http://ec.europa.eu/environment/forests/pdf/EUTR-Final\\_Report.pdf](http://ec.europa.eu/environment/forests/pdf/EUTR-Final_Report.pdf)

<sup>10</sup> SME's (Small and Medium Enterprises) are defined by the EU as businesses employing less than 250 people with a turnover of less than €50 million – "The new SME Definition – Increased opportunities in EU research", European Commission Community Research, [http://www.euresearch.ch/fileadmin/documents/PdfDocuments/sme\\_definition\\_leaflet\\_en.pdf](http://www.euresearch.ch/fileadmin/documents/PdfDocuments/sme_definition_leaflet_en.pdf)

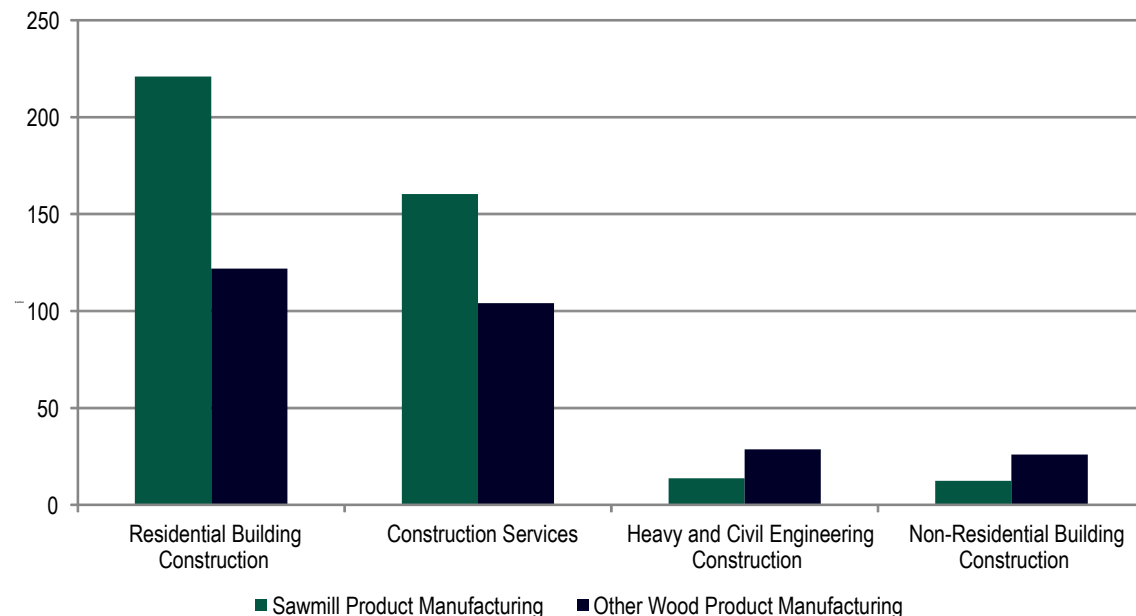




## Diagram 5

### Use of Imported Wood Products in Construction

Source: ABS 5209 Australian National Accounts Input -Output Tables



## 10.0 Australia's building and construction labour force

ABS labour force data shows there was a construction labour force of 1,047,400 in the August quarter of 2011. However, this only captures ANZIC<sup>11</sup> division E "Construction"<sup>12</sup>. This classification provides a reasonable indication of the size of the work force directly in construction. However, the output of the construction sector is dependent on a far broader supply chain that has a correspondingly larger labour force.<sup>13</sup>

The construction labour force is broken down into three categories, primary, secondary, and tertiary. The primary labour force refers to those directly responsible for construction projects; the secondary labour force refers to those which provide

<sup>11</sup> Australian and New Zealand Standard Industrial Classification 2006

<sup>12</sup> Includes Residential Building Construction, Non-Residential Building Construction, Heavy and Civil Engineering Construction, Architectural, Engineering and Technical Services, Other Construction Services, Building Completion Services, Building Installation Services, Building Structure Services and Land Development and Site Preparation Services industry group categories.

<sup>13</sup> *Imported Wood Products and the Australian Building and Construction Industry*. HIA Economics Group, 2012



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

inputs into the construction process, while the tertiary labour force refers to those workers who provide input into construction indirectly.

The primary construction workforce is small relative to the other groupings, as generally these occupations are typically managerial. The secondary grouping provides the largest construction workforce encompassing many of the technical services and skilled construction trades. Typically these workers will have specialised knowledge and skills in a particular aspect of construction. The work undertaken by the secondary construction workforce grouping may be on projects in residential, non-residential, or heavy and civil engineering construction sectors. The tertiary grouping is also very large. However, it should be noted that in order to include construction related occupations it was necessary to include some ANZIC industry groups with broad definitions which include some occupations unrelated to construction.

During 2007-08 based on the ANZIC *Construction* classification, the construction workforce averaged 971,400 workers; the Australian National Accounts suggests that there was a full time equivalent of 905,750 people working in 2007-08 and around 13.4% of the workforce participated on a part time basis.

### **10.1 Australia's wood product supply chain labour force**

As previously, the labour force has been classified into three categories: primary; secondary; and tertiary. The primary labour force refers to those in forestry, the secondary labour force refers to those which add value directly to the raw material, while the tertiary labour force refers to those which provide inputs into the wood product manufacturing further down the supply chain.

The sawmill product manufacturing, other wood product manufacturing, and forestry and logging sectors consisted of a workforce of an estimated 62,165 people in the 2007-08 financial year with 88.3% engaged on a full time basis. Contemporary estimates from August 2011 indicate a reduced workforce which may reflect the contraction in plantation establishment following the collapse of a number of major forestry managed investment scheme companies (see Table 1).



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

**Table 1**

## Labour Force in Australian Timber Supply Chain (2011)

	<b>Industry Group</b>	<b>Labour Force</b>
<b>Primary</b>	Forestry and Logging	6,600
	Forestry Support Services	4,300
	<b>Subtotal</b>	<b>10,900</b>
<b>Secondary</b>	Log Sawmilling and Timber Dressing	12,200
	Other Wood Product Manufacturing	23,700
	<b>Subtotal</b>	<b>35,900</b>
<b>Tertiary</b>	Furniture, Floor Covering and Other Goods Wholesaling	49,900
	Furniture, Floor Coverings, Houseware and Textile Goods Retailing	45,800
	Hardware, Building and Garden Supplies Retailing	78,800
	Timber and Hardware Goods Wholesaling	41,700
	<b>Subtotal</b>	<b>216,200</b>
<b>Total</b>		<b>263,000</b>

\*Industry Group classified by three digit ANZSIC code

If it is assumed that the output per unit of labour attributable to manufactured wood product inputs is consistent irrespective of whether domestically produced or imported wood products are used, it is possible to make an estimate of the size of the workforce attributable to imported wood products. While it is reasonable to hold this assumption, the accuracy is indeterminate. Therefore, inference based on the estimates should be treated with caution.

ABS input-output tables show that imported wood products accounted for around 10% of material inputs into the construction industry. Applying the above mentioned assumption to the workforce identified in Table 1 implies that imported manufactured wood products may result in 28,990 people working directly in construction and a further 80,450 people in occupations that provide inputs into the construction process. The labour force attributable to imported wood products has the potential



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

to be larger if tertiary occupations are also taken into account; however data limitations prevent accurate quantification.

## 11.0 Housing supply

While Australia's population has been growing at a record rate in recent years, new home building has stalled. The resulting imbalance in supply and demand has created a housing shortage, with those locked out of the market forced into inadequate housing in terms of size, location, and household structure, which includes living at home longer or increased sharing of homes, or in the worst case being left homeless.

Using estimates of the annual gap between underlying demand and dwelling completions, HIA estimates that as at June 2011, Australia had a cumulative shortage of 229,500 dwellings. This figure is in line with estimates from a range of institutions. For example, Goldman Sachs estimates a cumulative deficit of 250,000 dwellings in 2012, the National Housing Supply Council estimates a mid-2011 shortage of 228,300 dwellings, Westpac estimates a mid-2010 shortage of around 200,000 dwellings, and ANZ estimates that NSW alone had a housing deficit of 126,600 dwellings as at mid-2011.<sup>14</sup>

Based on current forecasts of new home building Australia's housing shortage is set to worsen as demographic demand continues to outpace supply (see Diagram 6).

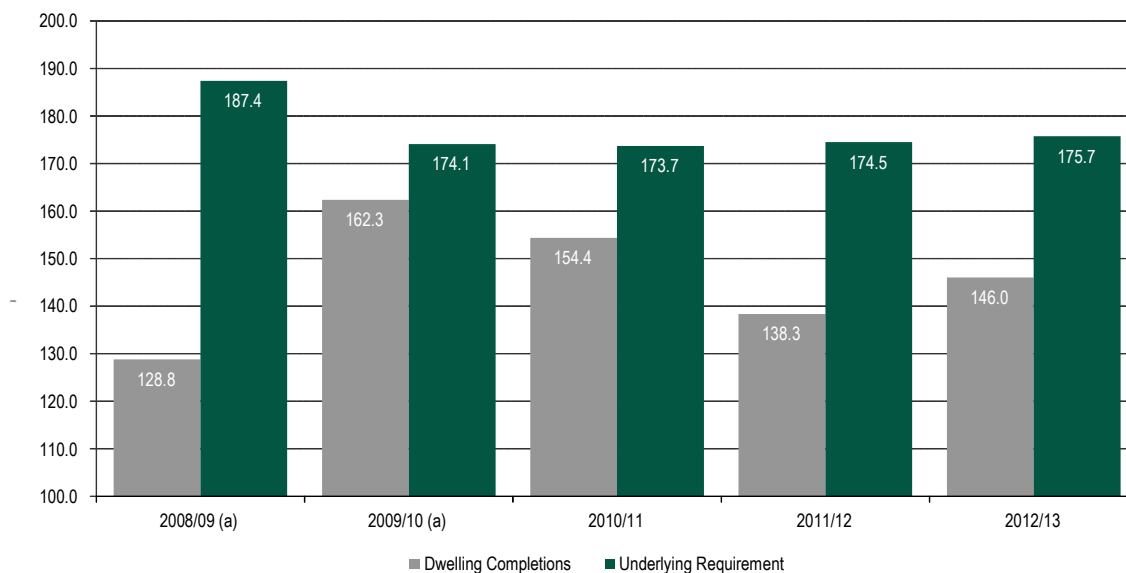
<sup>14</sup> *Imported Wood Products and the Australian Building and Construction Industry*. HIA Economics Group, 2012



## Diagram 6

### Underlying Requirement for Housing vs Dwelling Completions

Source: ABS, HIA Economics Group



## 12.0 Lack of development of regulations and completion of reports

The lack of development of associated regulations is an important issue and was central to the Opposition's proposed amendment to the Bill, as outlined in the second Senate Rural and Regional Affairs and Transport Legislation Committee report.

Also the failure of the Government to complete and disclose key background papers, such as the ABARES report that will assist in determining the definition of and reach of *regulated timber products* in the Bill has resulted in an escalating lack of confidence by the industry and supplier countries in the capacity of the Government to development useful and cost effective legislation.

## 13.0 Lack of support for supplier country capacity building

A major political imperative behind the Government's illegal logging policy and proposed legislation is addressing illegal logging activity, poor governance and corruption in the Indonesia and PNG timber industries.



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

The Australian Government and timber importing industry has limited capacity to improve its understanding of government policies, trends and illegal logging-related matters in perceived high risk countries.

Australian timber importers consider that the industry has a reasonable understanding of the situation in PNG through its contacts with the PNG Forest Industry Association, timber product auditors, individual timber product supply companies and government agencies. However, this is not the situation in Indonesia that in terms of risk assessment and volume of trade is higher on the radar than PNG in relation to the Australian Government's illegal logging policy.

Australia's limited capacity to gather government and timber industry-related intelligence in Indonesia compares poorly with other countries also buying Indonesian timber products. It is understood that the US, EU, UK and Japan all have some government supported capacity within Indonesia to provide independent intelligence feed back to governments to assist in making more informed decisions related to policy development, risk assessment, and legality verification matters. For example, in addition to providing substantial funding for capacity building directed at strengthening forest and timber trade administration, law enforcement and governance, the EU and UK fund a timber industry expert group based in Jakarta.

This semi autonomous group provides independent feed back to governments as well as working with Indonesian timber product suppliers to ensure that they understand and meet the standards required when legality verification laws are enacted in the EU and UK. Australia does not have this capacity. Its absence is considered to be a major deficiency given the intention of the Government to introduce illegal logging legislation and the central position of Indonesia in relation to allegations of illegal timber product trading activity.

The present lack of Government and timber industry-related intelligence in Indonesia means that the Australia Government has a reduced capacity to:

1. Understand the development of pertinent Indonesian policy and related government instruments.
2. Be informed about actions initiated by the Indonesian Government in association with the timber industry and other stakeholders to improve legality verification, such as the development, implementation and effectiveness of the SVLK (timber legality verification system) scheme in meeting legality assurance requirements under proposed Australian legislation.



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

3. Better understand and contribute to the development of Australian Government sponsored initiatives to address aspects of illegal logging.
4. Identify areas where Australia might more precisely contribute to timber industry capacity building through mechanisms, such as the Asia Pacific Forestry Skills and Capacity Building Program and Aus Aid programs.

A continuation of this situation is unsatisfactory, especially during the period when the Australia Government is seeking to enact its illegal logging legislation and to ensure that legality verification measures in higher risk countries and by Australian importing companies meet the requirements of the Government's policy goals and legislation.

#### **14.0 Government avoidance of funding obligations**

While it can be argued that the ongoing operational costs associated with proposed illegal logging legislation should be borne by the industry, the considerable set-up costs and initial implementation costs must be met by the Government. If the Government is serious about progressing its illegal logging policy it should provide funding for:

1. A timber products supply chain and consumer advocacy program.
2. Providing financial support to timber product supplier countries, including reinstating the deferred Stage 2 (\$12.1 million) of the Asia Pacific Forestry Skills and Capacity Building Program.
3. Assisting importers to overcome the cultural, language and legal barriers in communicating the requirements of the Bill to suppliers.
4. Follow the lead of the EU, US and Japan in assisting to improve intelligence gathering and capacity building in perceived high risk countries, notably Indonesia.

---

For additional information contact:

John Halkett  
 Technical Manager  
 Australian Timber Importers Federation Inc  
 Ph: 02 9356 3826  
 Mob: 0417 421 187  
 Email: john.halkett@bigpond.com



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

## Appendix 1

Brief outline of timber product industry trade associations party to this submission.

### 1 *Australian Timber Importers Federation Inc (ATIF)*

The ATIF is the peak national body representing the business interests of timber product importing companies. More broadly ATIF represents and advocates for the importing sector of the timber industry in national fora. The ATIF is governed by a constitution, code of ethics and board of directors.

ATIF company members collectively handle a substantial percentage of the solid timber products (sawn timber, panel products, plywood, engineered wood products, componentry and veneer) imported into Australia.

### 2 *Timber and Building Materials Association (Aust) Ltd (TABMA)*

TABMA is a member-based industry association operating in NSW, Queensland, Western Australia, South Australia and Tasmania representing timber and building material merchants, suppliers, manufacturers, wholesalers and timber importers.

Through information, advice and services, TABMA provides its members with practical solutions to improve their business management, growth and profitability. TABMA members receive access to a range of benefits including government representation at state and national levels, industry representation, networking opportunities, development of labour resources through group training arrangements, group buying discount arrangements and also permanent and part-time staff placements through recruitment divisions.

### 3 *Timber Merchants Association (TMA)*

The TMA is a Victorian-focussed entity that provides expert advice, representation and services for members as they work to satisfy the needs of their customers, community and the environment, while coping with increasing competition in the market place.

TMA provides advice on the use of timber and building products in residential and commercial applications while also providing industry services to its members.

TMA provides advice to members on obligations to practice and promote sound environmental stewardship.





Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the *Illegal Logging Prohibition Bill 2011*

#### **4 Timber Veneer Association of Australia (TVAA)**

The TVAA is recognised as the national association representing decorative and structural veneer importers, specialist panel importers, veneer merchants and manufacturers of veneered panels and veneer based specialty products. The association is actively involved in the promotion and expansion of the market for decorative wood veneered panel products; developing industry standards; providing education for industry companies, specifiers and end users. TVAA also provides a forum for networking forum for members.

#### **5 Windows and Doors Industry Council (WADIC)**

WADIC is a national member service organisation for timber window and door manufacturers supplying products to the building and construction industry. WADIC's role is to assist members in compliance with relevant Australian standards and codes, to promote the environmental and energy performance benefits of member's products, and provide members with options for window energy rating systems.

WADIC is committed to supporting energy conservation and environmentally sustainable products, through ongoing development and assistance to their members in the timber window and door manufacturing industry.



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the  
*Illegal Logging Prohibition Bill 2011*

## Appendix 2

Summary of timber product imports from 32 countries<sup>15</sup>.

	Unit	2010 Sep qtr	2010 Dec qtr	2011 Mar qtr	2011 Jun qtr	TOTAL 2010-2011 Financial year	Percentage of IMPORTS 2010-2011 Financial year
New Zealand	'000 m <sup>3</sup>	71.6	68.8	61.0	63.4	264.7	31%
Czech Republic	'000 m <sup>3</sup>	21.9	20.9	23.0	19.2	85.1	10%
Estonia	'000 m <sup>3</sup>	17.2	20.6	18.5	14.7	71.0	8%
Canada	'000 m <sup>3</sup>	17.0	13.8	21.7	16.6	69.1	8%
Germany	'000 m <sup>3</sup>	18.7	18.7	15.8	13.8	67.0	8%
Chile	'000 m <sup>3</sup>	12.8	17.1	14.4	11.2	55.6	7%
Austria	'000 m <sup>3</sup>	14.5	13.7	7.0	5.0	40.1	5%
<b>Malaysia</b>	<b>'000 m<sup>3</sup></b>	<b>9.4</b>	<b>8.5</b>	<b>8.6</b>	<b>7.5</b>	<b>34.1</b>	<b>4%</b>
Sweden	'000 m <sup>3</sup>	6.2	7.0	7.9	9.5	30.5	4%
<b>Indonesia</b>	<b>'000 m<sup>3</sup></b>	<b>7.2</b>	<b>6.6</b>	<b>7.7</b>	<b>7.5</b>	<b>28.9</b>	<b>3%</b>
United States	'000 m <sup>3</sup>	4.9	7.2	8.7	7.6	28.4	3%
Lithuania	'000 m <sup>3</sup>	6.0	4.8	6.2	4.6	21.6	3%
<b>China</b>	<b>'000 m<sup>3</sup></b>	<b>4.9</b>	<b>6.0</b>	<b>4.0</b>	<b>3.1</b>	<b>17.9</b>	<b>2%</b>
Finland	'000 m <sup>3</sup>	1.8	2.6	2.9	5.1	12.3	1%
<b>Papua New Guinea</b>	<b>'000 m<sup>3</sup></b>	<b>1.0</b>	<b>1.3</b>	<b>1.1</b>	<b>1.8</b>	<b>5.1</b>	<b>1%</b>
Other	'000 m <sup>3</sup>	1.1	0.9	1.1	0.7	3.9	0%
Solomon Islands	'000 m <sup>3</sup>	0.8	0.8	0.8	1.3	3.6	0%
France	'000 m <sup>3</sup>	0.8	0.9	0.3	0.4	2.4	0%

<sup>15</sup> Data taken from ABARES report at:

[http://adl.brs.gov.au/data/warehouse/afwpsd9able001/afwpsd9able201111/afwpsImports201111\\_1.0.0.xls#49 Imp swp !A1](http://adl.brs.gov.au/data/warehouse/afwpsd9able001/afwpsd9able201111/afwpsImports201111_1.0.0.xls#49 Imp swp !A1)



Submission to: Joint Standing Committee on Foreign Affairs, Defence and Trade: Inquiry into the  
*Illegal Logging Prohibition Bill 2011*

Brazil	'000 m <sup>3</sup>	0.3	1.0	0.4	0.2	1.9	0%
Fiji	'000 m <sup>3</sup>	0.3	0.2	0.1	0.2	0.8	0%
Ecuador	'000 m <sup>3</sup>	0.1	0.4	0.1	0.0	0.6	0%
Peru	'000 m <sup>3</sup>	0.1	0.1	0.1	0.2	0.4	0%
United Kingdom	'000 m <sup>3</sup>	0.0	0.1	0.3	0.0	0.4	0%
Singapore	'000 m <sup>3</sup>	0.1	0.1	0.1	0.0	0.2	0%
Russian Federation	'000 m <sup>3</sup>	0.1	0.0	0.0	0.0	0.2	0%
Ghana	'000 m <sup>3</sup>	0.0	0.0	0.1	0.1	0.2	0%
Philippines	'000 m <sup>3</sup>	0.1	0.0	0.0	0.0	0.2	0%
Latvia	'000 m <sup>3</sup>	0.1	0.0	0.0	0.0	0.1	0%
Bosnia and Herzegovina	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
Myanmar	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
India	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
Thailand	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
South Africa	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
Mali	'000 m <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0%
<b>Total</b>	<b>'000 m<sup>3</sup></b>	<b>219.0</b>	<b>221.9</b>	<b>211.9</b>	<b>193.8</b>	<b>846.7</b>	<b>100%</b>

