



31 March 2017

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**AFPA submission to the Joint Select Committee Inquiry into the 'Government Procurement Framework'.**

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission the Joint Select Committee Inquiry into the 'Government Procurement Framework'.

AFPA supports competition in the global trade of goods and services where there is a level playing field in terms of the removal of tariff and non-tariff barriers, and comparable safety and environmental standards. The government procurement market is already completely open to competition from foreign suppliers. However, in terms of the current Australian Government procurement system, AFPA has previously raised concerns regarding the lack of awareness and implementation amongst Government procurement officials of the environmental sustainability guidelines and broader socio-economic benefits when purchasing.

The new Rule changes in CPR17 go some way to address these issues but more needs to be done. AFPA recommends that the Australian Government work to improve the procurement system in Australia to ensure that officials adequately implement the environmental sustainability requirements and take into account broader socio-economic benefits. This is particularly relevant given the high level of imports into Australia, and the importance of comparing the environmental and socio-economic impacts of imported and domestically produced wood and paper products when making purchasing decisions.

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Yours sincerely

**Chief Executive Officer**



## **AFPA SUBMISSION TO THE JOINT SELECT COMMITTEE INQUIRY INTO THE 'GOVERNMENT PROCUREMENT FRAMEWORK'.**

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission the Joint Select Committee Inquiry into the 'Government Procurement Framework'.

AFPA is the peak national industry body representing the Australian forest, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

The issues outlined in this submission apply to both manufactured wood (e.g. sawn timber, engineered wood products) and paper based products, noting the high level of consumption of paper and tissue products by the Australian Government.

AFPA recognises the proud social, economic and environmental record of the Australian wood and paper products industry and the inherent environmental strengths of these products as a renewable resource with a high propensity for recycling, a low carbon footprint and responsible sourcing from sustainably managed forests and fibre waste streams.

***Regarding Commonwealth procurement of wood and paper products, AFPA has previously advocated for more transparent procurement policies and practices which take into account the high environmental and social standards from domestic suppliers, as well as the significant economic and social benefits from purchasing locally made products.***

These issues are discussed in more detail below:

### **ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS OF UTILISING AUSTRALIAN GOODS AND SERVICES**

#### ***Australian Pulp and Paper Industry in Australia***

The economic and social benefits of the Australian pulp and paper industry are significant, providing many skilled jobs in addition to economic activity and income in regions across Australia and growth to the national economy.

The Australian pulp and paper industry in FY 2014/15 directly employs 16,000 people in both outer metropolitan and regional areas, and supports a further 24,000 indirect jobs. The sales turnover for the pulp and paper sector averages around \$10.1 billion per year. The wood and paper products industry collectively represents around 6 per cent of total manufacturing value added in Australia<sup>1</sup>.

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<sup>1</sup> [ABARES](#) Australian Forest & Wood Products Statistics Jun Qtr 2016

Australia is a medium-sized open economy with an annual trade deficit in wood and paper products of over \$2 billion per annum, with a large proportion of imports comprising printing and writing papers. Major exporters of printing and writing papers to Australia include Finland, China, the United States, Austria, Germany, Canada, New Zealand, Brazil, Thailand and Indonesia. It should be noted that countries importing paper products that are currently subject to dumping measures by Australia's Antidumping Commission (ADC) are China, Indonesia, Thailand and Brazil (in order of imported volumes).

The paper products industry in Australia, as a capital-intensive industry, has invested heavily over time in pulp and paper manufacturing and related activities, such as bioenergy and cogeneration, including over \$1 billion in recent capital expenditure.

### ***Commonwealth Procurement of Paper Products***

AFPA recognises that the Australian Government through its various departments and agencies is one of the single largest consumers in Australia of printing and communications papers, tissue, and packaging products. The Australian Government purchases annually:

- approximately 4,200 tonnes of copy paper;
- an estimated 40,000 to 50,000 tonnes of paper used for external printing, such as publications, pamphlets, forms, brochures and envelopes; and
- a significant amount of tissue and packaging papers.

### ***Wood Products Industry***

The Australian wood products industry includes the production of sawn timber and engineered wood products (EWPs) such as medium density fibreboard, particleboard, laminated veneer lumber and plywood, which are used for a wide variety of building, construction and other uses. Collectively these industries have a sales turnover of over \$12 billion, supporting around 40,000 direct jobs and a further 60,000 indirect jobs.

A major feature of the wood and paper products industry is its geographic spread and significance to the economic and social well-being of many rural and regional communities, through local growing, harvesting, processing and marketing of forest products and flow-on effects to other suppliers. The forestry industry, which provides sustainable wood and fibre resources for domestic processing, directly supports a further 11,000 direct jobs through forest growing and harvesting activities.

Australian manufacturers have produced annually around 5 million cubic metres of sawn timber and 1.6 million cubic metres of EWPs in recent years. In FY 2015/16, imports of sawn timber were 841,000 cubic metres and imports of EWPs were 652,000 cubic metres including 357,000 cubic metres of plywood mainly from Asia.

Given the high volume of imports and competitive pressures faced by domestic producers in terms of a high Australian dollar and high domestic environmental and social standards, it is essential that the regulatory framework for non-conforming products (e.g. failure to meet minimum Australian standards for environment, product use and safety) be rigorously applied including via procurement policies. These issues with respect to non-conforming building products, particularly for imported EWPs, are discussed in more detail later in the submission.

***Australian Government's procurement decisions have a major impact on local manufacturers, as well as setting precedents for wider Australian consumers. AFPA recommends that Government departments take into account socio-economic considerations in addition to their 'value for money' considerations, in their procurement decisions.***

#### **TERMS OF REFERENCE OF THE JOINT SELECT COMMITTEE INQUIRY INTO THE 'GOVERNMENT PROCUREMENT FRAMEWORK'.**

The Joint Select Committee on Government Procurement was established to inquire and report by 31 May 2017, on the following matters:

- a. the Commonwealth procurement framework;
- b. consideration of the Commonwealth Procurement Rules to come into force on 1 March 2017 (CPR17);
- c. their implementation; weighting and other mechanisms that should apply to any Commonwealth procurement decision making; and their interaction with any other Government policies and programs (including grants), instruments, guidelines and documents relating to procurement, including the Department of Finance's Resource Management Guide No. 415;
- d. the extent to which CPR17 and any related instrument and rules can be affected by trade agreements and other World Trade Organization (WTO) agreements; and
- e. any related matters.

This submission looks to cover many of these issues.

#### **PROPOSED CHANGES TO PROCUREMENT GUIDELINES**

The new Commonwealth Procurement Rules came into force on 1 March 2017 (CPR17); include new Procurement Rules 10.10, 10.18, 10.30, 10.31 and 10.37.

New Rule 10.10, where an Australian standard is applicable for goods or services being procured tender responses must demonstrate the capability to meet the Australian standard and contracts must contain evidence of the applicable standards. The Government indicated that where standards are applied it is important for integrity and probity that suppliers to government are capable of meeting standards. Ensuring that value for money has been achieved, that is, by ensuring goods or services are fit for purpose.

New Rule 10.37 sets the expectation for the level of verification for officials checking verification or seeking other forms of independent assurance that would satisfy a test of making reasonable inquiries.

New Rule 10.18 details the expectation that officials must make reasonable inquiries that the procurement is carried out considering relevant regulations and/or regulatory frameworks including but not limited to tenderer's practices regarding: (a) labour regulations, including ethical employment practices; (b) occupational health and safety; and (c) environmental impacts.

Where one of these areas of regulation is not applicable or alternatively other forms of significant regulation apply, then officials would use their judgement to make the appropriate inquiries using reasonable efforts.

The new rules 10.30 and 10.31 require officials to take into account the broader economic benefits for Australia of procurements above \$4 million as part of their decision-making process.

***AFPA has welcomed the new Rules as they are step forward in hardwiring consideration by Government procurement processes and officials of 'value for money' principles, meeting Australian Standards, regulatory equality, and broader economic, social and environmental benefits.***

***However, it is recommended that the ('arbitrary') procurement floor figure of \$4 million needs to be applied as a mandatory benchmark when individual agencies are considering contracts off Head Agreements, such as the Whole-of-Government stationery panel. In this way, additional 'value for money' opportunities in all procurement areas are not missed. For example, individual agencies may not purchase \$4 million of office paper, however under the Head Agreement, the Government purchases significantly more than \$4 million of copy paper, and the new Rules 10.30 and 10.31 are then triggered. It is therefore recommended that when Government agencies evaluate their own individual contracts off Head Agreements that they take into account 'value for money' considerations as if they were purchasing the Head Agreement itself. It is also recommended that the changes are implemented to this current Government procurement tender/contract period (understood to be in place from February 2017).***

## **ENVIRONMENTAL SUSTAINABILITY GUIDELINES FOR PAPER AND PRINTING PRODUCTS**

When purchasing copy paper and printing products Government Departments are guided by the *Australian Government Commonwealth Procurement Rules* (CPR) and connected policies - the key principle of which is 'value for money'.

When considering suppliers, each Department is required to take into account a range of factors including price and cost of the product or service, and other non-price factors, such as meeting the required specifications - “fit for purpose”, quality, service and support, insurance and risk, delivery, contractual compliance - as well as energy, sustainability (including environmental sustainability) and work health and safety aspects.

Key sustainability requirements within the procurement system include: Clause 4.5 of the CPR dealing with non-financial costs and benefits including environmental sustainability (i.e. energy efficiency and environmental impact); and Clause 4.7 of the CPR dealing with procurement-connected policies, which includes the *Australian Government ICT Sustainability Plan 2010-2015* and *National Waste Policy*.

The now-lapsed *Australian Government ICT Sustainability Plan 2010-2015* (ICT Plan) introduced a number of positive strategies and actions aimed at assisting agencies to better manage the environmental performance and impacts of the information and communications technology (ICT) they procure and use, including Mandatory Environmental Standards Guideline 4: Environmental Standard 4 (ES4) - Recycled content and office copy paper and Fact Sheet 3: Evaluation measures and weightings for procurement.

Key requirements for paper products purchased for use by the Australian Government under the previous ICT plan included:

- general use office copy paper to have a minimum post-consumer recycled content of 50% by July 2011, progressing to 100% recycled content by July 2015 (ES4 mandatory requirement);
- remaining virgin fibre content to originate from certified sustainable chain-of-custody sources, such as the Program for the Endorsement of Forest Certification (PEFC) – Australian Forestry Standard (AFS) schemes, Forest Stewardship Council (FSC) certified sources/forests, or from sustainably managed forests (ES4 mandatory requirement);
- similar paper content standards for external printing and design contracts, where possible (ES4 mandatory requirement); and
- recommended percentage allocation of at least 20-40% for environmental weightings for copy paper contracts (ICT Sustainability Plan fact sheet 3).

The National Waste Policy details a coherent, efficient and environmentally responsible approach to waste management in Australia. The aims of the National Waste Policy are to: avoid the generation of waste, reduce the amount of waste (including hazardous waste) for disposal; manage waste as a resource; ensure that waste treatment, disposal, recovery and re-use is undertaken in a safe, scientific and environmentally sound manner, and contribute to the reduction in greenhouse gas emissions, energy conservation and production, water efficiency and the productivity of the land.

The National Waste Policy includes:

- Strategy 2: to embody and promote sustainable procurement practices by governments and the delivery of programs and services to facilitate certainty in the market; and the sharing of guidance materials with relevant bodies such as the Australian Procurement and Construction Council (APCC);
- the 2013 Sustainable Procurement Guide released as part of the National Waste Policy; and
- the 2011 Sustainable Procurement Guide for Office Paper prepared by the APCC.

Key requirements for paper purchased for use by the Australian Government under the National Waste Policy included:

- avoiding the generation of waste (National Waste Policy) and reduced landfill, through greater use of recycling; and
- transport impacts of fibre sourcing be taken into account as part of fully informed decisions on material sourcing (APCC Sustainable Procurement Guide for Office Paper).

## **ECONOMIC AND ENVIRONMENTAL BENEFITS OF USING LOCALLY MADE RECYCLED PAPER PRODUCTS AND ISSUES IN SOURCING UNSUSTAINABLE PAPER PRODUCTS**

There are estimated to be significantly lower greenhouse gas (GHG) emissions associated with using locally made recycled paper products compared to using imported recycled paper. Key reasons include:

- lower GHG emissions resulting from a reduction in sea freight due to less imports of recycled paper;
- lower GHG emissions resulting from a reduction in sea freight due to less exports of locally made recycled paper displaced by local consumption of imported recycled paper; and
- lower landfill GHG emissions due to less non-recovered paper going to domestic landfill as it is recycled in Australia. Using [Australia's National Greenhouse Accounts Factors](#) (August 2016 page 71) for every tonne of recovered waste paper products used, rather than sent to landfill, equals ~2.9 tonnes of CO<sub>2</sub> emissions avoided.

The inherent environmental strengths of wood and paper products include the fact that they can be made from renewable and recyclable sources with carbon sequestration and land management benefits. However, if not conducted on a sustainable basis, there exist a number of significant issues related to forestry practices and the sourcing of environmental sustainable wood and paper products. From a global trading perspective, these issues can include:

- land use conversion for fibre supply (i.e. deforestation or conversion of natural forests to plantations);
- environmental and social impacts of poor forestry practices (i.e. issues such as product yield, forest health, biodiversity and lack of community consultation);
- manufacturing practices (e.g. use of chemical, water and energy inputs);
- illegal logging and trade in wood and paper products;
- the carbon emissions footprint of products, including transport impacts; and

- the waste implications of additional landfill from using non-domestic recycled content paper sources.

Commonwealth procurement policies have generally failed to take into account the net cost to Government from domestic suppliers after tax revenues and charges to governments were taken into account, as well as important flow-on employment and benefits to the economy and local communities.

Australian Paper contributed a total of \$452m in taxes (includes indirect taxes and flow-on effects) for the year 2015 and produced a total of 600,433 tonnes of paper. As an example, for every 500 sheet A4 ream of Australian made copy paper, which retails at a price of approximately \$5 per ream, for example, around \$1.88 is returned to government revenues in the form of taxes and charges (Western Research Institute 2017). Similarly, if the paper used for the large volume of external printing by the Australian Government (e.g. 40,000 tonnes per year) were met by Australian Paper, this translates to a potential return to Government of about \$30 million per year, based on a transfer payment of \$753 per tonne.

There are direct economic benefits for the Government to build commercial and residential buildings utilising wood product solutions. Timber is strong, lightweight and flexible, making timber construction simple and safer than common alternatives. Choosing timber means there isn't the need to contend with heavy lifting and large cranes to secure materials onsite, reducing cost and making building sites safer work places. In addition, when working with timber, the range of timber products can be machined and fabricated both onsite and offsite, offering both flexibility and a significant benefit for project management and turnaround times. Advances in modern technology enable fast and accurate installation of engineered wood products like cross laminated timber (CLT) and laminated veneer lumber (LVL) members. Specialist manufacturers use high tech prefabrication that guarantees accuracy and ensures rapid construction.

A recent National Construction Code change enables the construction of innovative timber buildings of up to eight storeys (both commercial and multi-residential). New building materials options include traditional timber framing and innovative massive timber systems, such as CLT, LVL and glulam. The drivers for adopting the new building practices will be cost savings and consequent potential increases in margins for developers and builders. Preliminary economic modelling indicates possible savings in the order of 10-15% in multi-residential and commercial build costs, primarily due to shorter construction times.

## **STATUS OF ENVIRONMENTAL SUSTAINABILITY GUIDELINES FOR WOOD AND PAPER PRODUCTS**

Despite being supported by industry, the *Australian Government ICT Sustainability Plan 2010-2015* (which included the requirement of 100% recycled content for all office copy paper purchases by 1 July 2015) was scrapped by the Government in 2015. As a result, Government procurement policies are no longer underpinned by a recycled content requirement.



In 2016, the Government took a step to rectify this issue via a letter from the then Environment Minister Greg Hunt to other ministers. The letter advised that, wherever possible, Ministers and their Departments commit to purchasing 100% recycled paper and adopt sustainable practices consistent with the National Waste Policy. Federal Assistant Minister for Agriculture and Water Resources Senator Anne Ruston in 2016 also encouraged by letter her political colleagues to consider 'value for money' principles in their procurement strategies for their offices and commit to Australian-made paper products. The recent changes made to CPR17 are also other useful steps along this path.

Another step is the formal reinstatement of this 'buy 100% recycled rule' in a procurement connected policy. This would have positive implications beyond the Australian Government, which is often seen as a leader for State and local governments, and the private sector in sustainable procurement.

***The Australian Government should formally reinstate the 'buy 100% recycled rule' and a requirement to minimise waste in a procurement connected policy (e.g. via the National Waste Policy); and commit to stronger action on implementing the Australian Government's sustainability requirements for wood and paper products.***

#### **EXAMPLE OF RECENT RECYCLING INVESTMENT IN AUSTRALIA**

Australian Paper invested \$90 million in a recycling plant at its Maryvale site which will divert up to 80,000 tonnes of wastepaper from local landfill every year. This project received a \$9.5 million grant from the Australian Government and \$9.9 million in finance from the Clean Energy Finance Corporation (CEFC). A link to the significant environmental and recycling benefits from the project can be found on the CEFC website [here](#).

#### **PERCENTAGE OF AUSTRALIAN MADE COPY PAPER PURCHASED BY THE AUSTRALIAN GOVERNMENT AGENCIES**

In previous submissions AFPA detailed analysis of Departmental paper usage, showing that 16 (or almost three quarters) of the 22 largest Departments were choosing to purchase imported paper rather than locally made paper in 2014.

The Federal Department of Finance, in response to 'questions on notice' at the 2016/17 Senate Budget Estimates, provided an updated breakdown of the percentage of Australian made copy paper purchased by the Australian Government agencies in 2015/16 (the overall total percentage (by volume) was 59%). However, a significant proportion of the largest Australian government agencies are still purchasing imported paper products despite the price competitiveness of the locally made 100% recycled paper and that all preferred government suppliers can supply locally made 100% recycled paper (refer Table 1). This indicates that much more can still be done.

**Table 1: Copy paper source for the 22 largest Departments and agencies**

NO.	AGENCY	~EMPLOYEES	2015/16 - SOURCE - %	
1	Department of Human Services	33,645	Australia – 97%	Austria – 3%
2	Department of Defence	21,761	Australia – 100%	NA - 0%
3	Australian Taxation Office	21,507	Australia – 0%	Austria – 100%
4	Department of Communication and Arts	NA	Australia – 0%	Austria/Brazil/Indonesia – 100%
5	Australian Federal Police	6,909	Australia – 32.5%	Austria/Indonesia – 67.5%
6	Department of Health	4,705	Australia – 78%	Austria/Indonesia – 22%
7	Department of Industry	5,956	Australia – 14%	Austria/Brazil – 86%
8	Department of Immigration & Border Protection	5,393	Australia – 8%	Austria/Brazil/Indonesia/Thailand – 92%
9	Department of Foreign Affairs	4,719	Australia – 0.8%	Indonesia/Austria – 99.2%
10	Department of Agriculture	4,712	Australia – 34%	Indonesia/Austria – 66%
11	Department of Veterans' Affairs	1,940	Australia – 16%	Austria – 84%
12	Department of Education and Training	3,973	Australia – 2%	Austria/Indonesia/Thailand – 98%
13	Department of Employment	NA	Australia – 10%	Austria/Indonesia/Thailand – 90%
14	Department of Social Services	3,377	Australia – 100%	NA – 0%
15	Department of the Environment	2,286	Australia - 1.6%	Austria/Brazil/Indonesia/Thailand – 98.4%
16	Productivity Commission	NA	Australia – 54%	Indonesia – 46%
17	ASIO	NA	Australia – 100%	NA – 0%
18	ASIC	1,718	Australia – 100%	NA – 0%
19	Department of Infrastructure	1,530	Australia – 25%	Austria/Indonesia – 75%
20	Department of Finance	1,506	Australia – 0.2%	Austria/Indonesia – 99.8%
21	Bureau of Meteorology	1,481	Australia – 0.1%	Austria/Brazil/Indonesia– 99.9%
22	Department of the Treasury	1,261	Australia – 30%	Austria/Brazil/Indonesia– 70%

Source: Senate Estimates November 2016

It is essential that the sustainability guidelines for paper and printing products be fully implemented within the Australian Government procurement system, to provide a level playing field when it comes to assessing the environmental performance of imported and domestic paper products.

According to the Australian Government's own assessment of performance against the sustainability procurement guidelines: *'there is currently no formal whole-of-government mechanism or requirement for entities to report on the uptake of sustainable procurement'*. (Sustainable Procurement in the Australian Government Report 2013).

This lack of transparency and formal requirement to report back on sustainable procurement practices on a whole-of-government basis is of significant concern, as there exists a range of sustainability issues with respect to the sourcing of internationally traded goods such as paper products. Furthermore, the lack of a consistent and measurable approach across Australian Government departments and agencies makes it difficult to ensure that the guidelines are being applied and met. An initial assessment should be undertaken by the Australian National Audit Office of the application of the National Waste Policy and requirements of Clause 4.5 of the *Australian Government Commonwealth Procurement Rules* within Government Departments and agencies.

***AFPA recommends that the Australian Government continues work to improve the procurement system in Australia, ensuring that procurement officials adequately implement the environmental sustainability requirements for wood and paper products. Given the high level of imported wood and paper products into Australia, it is important that Government procurement compares 'apples with apples', taking into consideration the environmental impacts of both imported and locally made wood and paper products, when making purchasing decisions.***

## **ILLEGAL LOGGING LEGISLATION**

The Illegal Logging Prohibition Act 2012 details it is a criminal offence to 'knowingly, intentionally or recklessly import or process illegally logged timber'. There are also due diligence requirements for addressing these risks under the associated Illegal Logging Prohibition Regulation 2012.

It has been estimated Australia imports around \$400 million of wood and paper products from illegal sources, which not only undermines the competitiveness of legally sourced and sustainable producers, it contributes to forest degradation and poor sustainability. This Act and associated regulation reflects similar legislation in the United States and Europe to address illegally sourced imports of wood and paper products from high risk countries and regions such as Africa and Asia.

It should also be noted that existing international accredited Chain of Custody certification schemes (e.g. either PEFC or FSC) are an effective means of demonstrating compliance with the Australian Illegal Logging legislation for procurement purposes.

***AFPA recommends that Commonwealth procurement policies and procedures should acknowledge these types of significant risks for imported wood and paper products.***

## **ENERGY USE AND CARBON EMISSIONS**

Another important environmental factor in assessing the sustainability of products is their carbon footprint, considering the energy inputs and carbon emissions from their production and distribution.

The Australian pulp and paper industry has high standards of corporate social responsibility through energy and carbon emissions monitoring and reporting, including mandatory and voluntary requirements such as under the National Greenhouse and Energy Reporting (NGER) and Energy Efficiency Opportunities (EEO) schemes. The Australian Government's EEO program encourages large energy-using businesses to improve their energy efficiency. It does this by requiring businesses to identify, evaluate and report publicly on cost effective energy savings opportunities.

Importantly, the Australian Government has also developed the National Carbon Offset Standard (NCOS) from 1 July 2010, based on the earlier Greenhouse Friendly scheme, which provides national consistency and consumer certainty in voluntary carbon markets for claims of carbon neutrality. The NCOS provides minimum standards for calculating, auditing and offsetting emissions, whereby firms can offset emissions through energy saving technologies and carbon sequestration projects. AFPA would argue that procurement policies should include the NCOS as a minimum standard for products claiming to be carbon neutral, to better align procurement with the Government's overall sustainability agenda and integrity standards.

Transport impacts and local sourcing of products

The Australasian Procurement and Construction Council (APCC) was formed in 1967 and is the peak council of departments responsible for procurement, construction and asset management for the Australian, State and Territory governments and the New Zealand Government. In its Sustainable Procurement Guide for Office Paper (2011), the APCC recommends that the transport impacts of fibre sourcing should be taken into account as part of fully informed decisions on material sourcing, including a recommendation to:

*Procure paper from suppliers that can demonstrate initiatives to reduce transport intensity associated with fibre sourcing and encourage the use of locally sourced fibre.*

The APCC Guide noted that around 70 per cent of pulp and paper products used in Australia are imported with associated transport impacts from the distribution of pulp and paper products.

***Despite these recommendations, AFPA remains concerned that transport impacts are not adequately recognised or accounted for within the overarching sustainable procurement policy framework adopted by the Australian Government.***

## WOOD PRODUCTS STANDARDS

Given the high international trade in wood products and varying standards of environmental and product integrity of imported goods into Australia, it is essential that the procurement framework for the Australian Government adequately recognises these issues in contracting for major building and materials projects. The Australian Government is a participant in the building and construction industry, with an expenditure in 2011-12 of \$4.5 billion in the 'Structures and Building and Construction and Manufacturing Components and Supplies' segment (Department of Finance and Deregulation, 2013).

AFPA is concerned about the risks of sub-standard and non-conforming building products, as highlighted by a recent report into non-conforming products (NCPs) used in the building and construction sector (Australian Industry Group 2013)<sup>2</sup>. This report identifies gaps and weaknesses in the conformance framework through inadequate surveillance, verification and enforcement, and outlines the results of a national survey that found that 92 per cent of company respondents reported NCPs in their supply chain.

In the case of EWPs, the report points to the prevalence of NCPs in the structural plywood market. The Engineered Wood Products Association of Australasia (EWPAA) reported: a lack of testing to Australian standards even though contracts may require this; formaldehyde used in resin systems; watered down resins; a lack of labelling, incorrect and fraudulent labelling; and understrength products. The EWPAA reports, in their Aug 2015 submission to the Senate Inquiry into NCP building products, that their market surveillance and targeted check testing during the period January 2013 to August 2015 resulted in '28% of imported panel products were found to not meet Australian Standards, compared to 1.5% non-compliance of certified product from Australia and New Zealand'. In Australian Industry Group 2013 report it was detailed that the NCP volume and the number of organisations responsible for placing it onto the market, are both growing.

The EWPAA administers a Quality Control and Product Certification program for product predictability, reliability and durability, and has routinely tested imported products against their stated compliance with Australian standards. The risks of NCPs in building projects (e.g. plywood, steel, plastics, electrical, glass and aluminium) is a significant issue in terms of workplace health and public safety as well as the direct economic costs of product failure.

***AFPA advocates a stronger role by the Australian Competition and Consumer Commission (ACCC) with respect to enforcement of compliance with Australian environmental and product safety standards, as well as through the Commonwealth Procurement Rules (CPR) as a market leader. It is critical that the Australian Government agencies more rigorously implement the 'value for money' criterion around fitness for purpose and potential supplier's experience and performance history.***

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<sup>2</sup> Australian industry Group (2013). The quest for a level playing field: the non-conforming building product dilemma.

## LIFE CYCLE ASSESSMENT OF BUILDING MATERIALS

The significant potential for the forest product industries to contribute to climate change mitigation was acknowledged in the 4th assessment report of the International Panel on Climate Change (IPCC), which stated:

*A sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.<sup>3</sup>*

AFPA notes the significant body of research showing the potential for reductions in greenhouse gas (GHG) emissions from the forest, wood and paper products industry. This research has shown that sustainably managed forests and forest product industries can make a positive contribution to reducing or abating GHG emissions. The major pathways for emissions abatement include:

- the carbon sequestered in growing forests;
- the carbon stored in harvested wood and paper products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre based products that have a substantially lower emissions footprint; and
- the use of woody biomass for renewable energy, thereby displacing fossil fuels.

Given the role of harvested wood and paper products (HWPs) as a carbon store and their substitution effects, there is a need for more appropriate implementation of life cycle inventory (LCI) and life cycle assessment (LCA) with respect to procurement of building materials and paper products. By tracking the inputs and outputs for each stage of production and consumption, the LCI of a product can be traced from cradle-to-grave, including in-service, recycling and landfill. Full life cycle accounting can identify and compare the low embodied energy of wood and paper products versus other more carbon-intensive products which is important in terms of the use of wood in reducing emissions in housing and non-residential construction<sup>4</sup> for example.

***AFPA recommends that Australian Government agencies more adequately take into account and implement LCI and LCA assessments, including the carbon emissions profile of alternative materials on a whole-of-life procurement basis, as part of the environmental sustainability provisions of the Commonwealth Procurement Rules (CPR).***

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<sup>3</sup> Nabuurs, G.J., et al (2007). *Forestry (9)*, in *Climate Change (2007): Mitigation. Contribution of Working Group III to the Fourth Assessment report of the Intergovernmental Panel on Climate Change*. (Metz B., Davidson O.R., Bosch P.R., Dave R and Meyer L.A. (eds.), Cambridge University Press, UK, and New York, USA.

<sup>4</sup> Lippke, B., Oneil, E., Harrison, R., Skog, K., Gustavsson, L. and Sathre, R. (2011). Life cycle impacts of forest management and wood utilization on carbon mitigation: knowns and unknowns. *Carbon Management 2*: 303-333.

## TRADE POLICY

### *Trade Liberalisation Principles*

AFPA supports the high-level principles of trade liberalisation to support global trade by removing unnecessary trade barriers and promoting greater efficiency, innovation and investment. However, these principles must be applied equitably and with comparable tariff reduction commitments from our major trading partners to deliver positive outcomes.

AFPA supports the following principles regarding Free Trade Agreements (FTAs):

- implementation of equitable free trade principles (i.e. equity in reduction of tariffs and their timing) between trading nations;
- Australian producers should have full access to trade remedies available under the WTO, including anti-dumping and countervailing measures;
- Australia's ability to develop and apply technical regulations, standards, testing and certification procedures must remain unaffected;
- Australia's ability to apply the rights and obligations under the WTO agreements on Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) must remain unaffected; and
- FTA market access outcomes should be reviewed after implementation for their impacts.

***The Australian Government should not enter trade agreements where the interests of the Australian forest, wood and paper product industries are adversely and/or inequitably affected, rather trade agreement outcomes should promote and benefit our industries.***

### *Trade Policies*

AFPA recognises the interaction of Australia's public procurement policies and international trade agreements to avoid discrimination by Government on the grounds of country of origin. AFPA supports a level playing field in terms of global trade and action on anti-dumping behaviour, as well as adherence to accepted environmental and social standards. The commitment to reciprocal undertakings with major trading partners is important, particularly in the case of those countries from which most paper imports arise (particularly China and Indonesia).

***AFPA recommends that the Australian Government ensure free trade arrangements include reciprocal environmental and social standards and compliance measures, including a commitment to transparent procurement policies adopted by the Governments of Australia and our major trading partners.***

### *Wood and Paper Products Trade*

Australian paper manufacturers produce the full range of paper types (packaging, newsprint, tissue, and printing & writing) primarily for the domestic market using both locally grown fibre, recovered paper and imported fibre.

As most paper grades are internationally traded commodities, Australian manufacturers face intense competition from large scale producers around the world (including Indonesia).

Given the fierce nature of competition in paper markets, Australian producers are very susceptible to asymmetric tariff reductions, predatory pricing and dumping of imports, and adverse impacts from non-tariff barriers, including direct subsidies, potentially enjoyed by producers in other countries. Capital subsidies in those countries may be explicit or may be a result of poor financial or other local regulation.

A recent example of a problematic FTA outcome for the wood and paper product industries occurred with the China-Australia Free Trade Agreement (ChAFTA). Unfortunately, the final text fails to treat the Australian paper products industry in an equitable manner regarding two-way tariff reform. AFPA notes the removal of Chinese tariffs for many other sectors and for specific wood products such as processed *radiata pine* timber products. However, ChAFTA delivers an inequitable tariff outcome for paper products. This will continue to have negative impacts on investment and trade in the Australian paper industry.

It promotes an un-level playing field regarding proposed tariff reform and provide a competitive advantage for Chinese producers relative to the Australian industry. This issue needs to be addressed in the ChAFTA 3-year structural review or preferably sooner. The position on paper products under ChAFTA cannot be allowed to occur again for any wood or paper products in future FTAs.

Australian sawmills and plywood and panels manufacturers process domestically grown plantation logs into sawn timber and EWP's (such as particleboard, MDF, hardboard etc) which are used primarily in structural and fit-out applications in the domestic housing and commercial markets. Any FTA should not result in asymmetric tariff reduction outcomes, rather seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, addressing non-conforming products, standards and associated regulation should be a key area in this regard.

AFPA supports the existence of an effective anti-dumping and countervailing system, advocates a level playing field in international trade and the ability for domestic industry to redress potential predatory and anti-competitive behaviour by international companies to ensure a level playing field in international trade.

***AFPA recommends that in negotiating trade agreements (including the current Indonesian FTA), the high environmental standards of the domestic industry must be acknowledged in terms of ensuring full compliance of any imported products with Australian environmental standards, including sustainable wood and paper product procurement requirements, domestic waste management and recycling policies. A strong anti-dumping and countervailing measures regime and maintenance of safeguard provisions must be supported.***



### ***Antidumping System, Trade and Government Procurement***

The Australian Government continues to advise industry that it is committed to trade remedies available under the WTO, including anti-dumping and countervailing (anti-subsidy) measures.

The Antidumping Commission (ADC) administers Australia's anti-dumping and countervailing (anti-subsidy) system. Following Australian industry applications that set out prima facie evidence of the dumping or subsidy and the injury the ADC commences an investigation and reports to the responsible Minister whether measures (including the application of interim measures as needed) should be imposed on imported goods. Over the last few years, the Government and the ADC have been implementing reforms to Australia's anti-dumping system, including strengthening Australia's anti-dumping rules, reducing red tape and improving certainty for businesses. An ongoing current antidumping case where the ADC has applied interim measures involves imports of A4 copy paper into Australia.

***In regards to Government procurement policies intersecting Australia's antidumping system, it is recommended that the following proposed clauses be included in all conditions of quotation/tender, and conditions of contract, associated with the Australian Government's purchase of goods:***

- ***"Dumped Goods, that is goods from overseas that are imported into Australia at less than their normal value, causing or threatening to cause material injury to an Australian industry producing like goods are not acceptable.***
- ***Where it is reasonably suspected that Dumped Goods are being supplied, the 'government procurement agreement' will be suspended to enable the suspicion to be confirmed or dismissed via the ADC.***
- ***Where the goods are subsequently determined by the responsible Federal Minister as Dumped Goods, the 'government procurement agreement' will be terminated.***
- ***Dumped goods, and goods that are suspected of being dumped and are under investigation by the ADC, can be identified by referring to the ADC's website. It is recommended that Government agencies refer to this website prior to the purchase of any goods.***