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I am responding to your recent letter requesting a submission to the Standing Committee on Industry, Science and Resources regarding value-adding to Australia's raw materials. In particular, your initial focus is on "an evaluation of the current state of value-adding in Australia and how that compares internationally."

The majority of pine processed in Australia is represented by the members of Pine Australia and the products that our members produce are a result of value-adding to the expanding exotic and much smaller native pine resource in Australia.

**Current environment:**

Expanding volumes of pine resource will place Australia in a nett export position in the near future. Australian softwood producers will need to prepare for this by ensuring cost competitiveness in production and ensure that products, quality and support services are suited to the needs of both domestic and international markets. Some companies have already made significant progress in understanding the external factors that will influence the successful marketing of pine products but there is scope for a sector-wide approach to this subject.

The Pine Australia membership has varied views and individual companies guard their right to seek to do business in a manner which is viewed best by them for their stakeholders/shareholders in terms of maximising return on investment and maintaining desired levels of profitability.

There is a strong bias towards structural grade timber products but a recognition by some that the appearance product market has been neglected in recent times and that there may be further value-adding opportunities in this area in the future. Whilst this needs to be resolved, it is clear that the major product of the pine sector will be structural framing. Much of Pine Australia's current efforts are focused in this area.

Consistent with the above, some companies (generally the smaller volume producers) see niche marketing as the way forward. Others recognise their role in commodity markets and clearly intend to consolidate and expand to achieve success through a minimum production cost/maximum production volume approach. Of course a commodity market in Australia may be a niche market, or at least a diversification, in an international market.

These producers will have to resolve their positions, individually or jointly, regarding a focus on export versus maintaining local markets, either directly or as feeders to other producer companies. Companies that do not wish to become involved in export have recognised the benefits of Pine Australia seeking to address export issues on the basis that their competitors will be less active in the Australian market. This may not be the case with the planned resource availability and further work is needed to develop a packaged approach to address the overall needs of the pine sector.

**The Australian Situation:**

The Australian market is relatively well defined in terms of products, market size and location. Much of the industry generic market development work presently being carried out is aimed at creating a market environment that is conducive to the successful sale of pine products and ensuring that the sector is as competitive as possible through research and development, technical development (e.g. timber framing systems), standards and codes activities (ensuring timber products are not disadvantaged), etc. This is proving a good strategy for maintaining the competitiveness of pine products against steel, plastic, concrete and other substitutes.

A current frustration for the pine sector is that answers to the above issues are required before input can be made to resource considerations (plantation management strategies), the selection of processing equipment and introduction of new production technologies, the degree of value adding necessary to address market needs and opportunities and other company specific marketing factors. The pine sector believes the current resource/ products relationship is inappropriate. The resource sector has traditionally placed emphasis on growth rate and volume with little consideration (with some exceptions) given to facilitating products that are what the market wants and that are 'fit-for-purpose' in the intended end-use application. There are strong marketing and legal liability pressures underpinning the need for change in this area, particularly in regard to structural timber products. A major rethink is required to address the needs of the pine processing sector in continuing to satisfy its current markets and to develop new markets, especially overseas where consumer expectations are not necessarily parallel to those experienced in domestic markets.

#### **International Markets:**

The pine sector is confronted with some major challenges in terms of global competitiveness. The mere existence of a major increase in pine resource availability in Australia is not sufficient to create automatic markets overseas and thus sales of wood products generated from the resource. There have been some major misconceptions regarding global wood availability. Global wood production issues need clarification in terms of both resource type and availability and derived products. Any strategy for the Australian pine sector must take this into account.

#### **The State of Value-adding in Australia:**

Australia's pine industry has by necessity been a leader in the introduction of new technologies such as kiln drying - the vast majority of its products are kiln dried -machine grading and the development of new products especially in the "engineered" product area. Some of these products include LVL (Laminated Veneer Lumber), I-beams and open web floor joists to name a few. Not so obvious and representing far greater volumes than the engineered products is the recent introduction of new grading and quality systems. MGP pine grades represent a machine graded product which through extensive testing, investment in equipment and market realisation enables pine structural timber to compete more effectively against alternative products as well as potentially assist in international trading.

Although Australia produces a relatively large percentage of value-added products, the potential to tap into more lucrative appearance, furniture and veneer markets is limited by the type and quality of the available resource as mentioned earlier. These products depend on clear or relatively clear wood which is generally a result of the pruning practices employed during tree growth. Future availability of this type of timber is of course limited to the current cut of trees, which generally mature in a period of 25 to 30 years.

#### **Other issues:**

- The changing ownership/rationalisation occurring in the softwood sector.
- Australia is a very minor player in the global context.
- Large players in Australia are small players in international markets.
- Economic cycles and downward price trends in Australia versus overseas markets.

- The relative position of Australia versus other countries in regard to production costs (including log costs) taking into account comparative quality issues.
- Factors affecting the delivered cost of pine products in overseas markets (ports, transport, currency, tariffs) versus competitors.
- The strategies of pine competitors - New Zealand, Chile
- Other significant non-traditional pine suppliers - South Africa, Brazil.
- The effect of sustained low profitability on the ability to raise capital.
- The competitiveness of wood substitutes and comparative fitness for purpose in traditional timber end use applications.

Government

- policy regarding energy efficient design and the use of building materials with low embodied energy; environmental concerns affecting market perception.
- Impediments to marketing into overseas markets with high value-added products where competing products are produced with low labour costs and other overheads.
- The lack of support for funding research and development into new value-added products has left the industry with "stale" products, especially in the appearance area.

In summary, the pine sector has understood the need for international competitiveness as a basis for survival and, through Pine Australia, has implemented a number of important programs that are being conducted within the framework of the available industry funds. However, there is a great amount of work to be done for the industry to achieve its objectives in the longer term. To this end Pine Australia would welcome any government initiatives that may assist industry development based on value-adding to our rapidly expanding pine resource in Australia.