Koppers Wood Products Pty. Limited
ABN 81 003 947 680
PO Box 335, GRAFTON 2460
Tel (02) 66412000
Fax (02) 66412099
www.koppers.com.au

SUBMISSION TO FOREST INDUSTRY ADVISORY COUNCIL STRATEGIC DIRECTIONS ISSUES PAPER – MAY 2015

KOPPERS WOOD PRODUCTS PTY LTD

Thank you for the opportunity to participate in policy settings for Australia's forest products sector into the future.

Koppers Wood Products Pty Ltd (*Koppers*) is part of a global company with a head office based in Pittsburgh, USA, listed on the New York stock exchange. (KOP)

In Australia Koppers is a long established supplier of CCA treated timber poles used for overhead electricity, communication lines, piling and foundation works. The "poles and wires" distribution network is recognized as critical infrastructure carrying power to our industries, farms and homes across Australia and near Pacific Nations.

Koppers operates timber treatment facilities based around forestry resource at Takura Qld (Maryborough), Grafton NSW, Longford Tas (Launceston) and Bunbury WA. The facilities are efficient and environmentally progressive. Energy usage during manufacturing treated poles is very low in comparison to any other timber processing.

Treated wooden poles are a high value product preferred by Energy Utilities because timber poles are durable, strong, renewable, sustainable, non conductive (safe), have a low carbon footprint, store carbon, are adaptable in use and cost competitive when compared to any other material.

Koppers utilise road, rail and shipping port infrastructure for timber procurement to its treatment facilities and to deliver finished poles to customers across Australia and the near Pacific Region. Koppers poles find use in domestic markets and some export markets.

Koppers source timber from certified renewable and sustainable sources primarily from regrowth native forest and some plantation on State Forest and private land across five States. A wide range of durable poles are produced primarily for Energy Utilities and for special purposes such as horticulture and golf course netting poles, Hwy wildlife crossings, ship masts and show arena lighting towers.

Koppers is a member of four timber associations in Australia.

Koppers directly employs 128 people at its facilities and North Sydney Head Quarters.

Koppers supports rural employment and the farm forestry economy. Each year over eighty separate contractors supply poles to Koppers plants with multiplier effects for transport and downstream processing. In addition poles are sourced from State Forest across five States and are an important part of the value chain for State Agencies.

The company's ties to rural communities goes beyond employment and extends to the direct involvement of our employees with local community projects.

Issues and Challenges

The superior natural qualities of timber over any other product across a whole range of criteria make wooden poles the standout logical choice: **renewable resource, sustainable production, longevity in service, carbon storage, low energy inputs to produce, natural insulation properties, flexibility in use, familiar product to customers and linesmen, capacity to generate high levels of rural employment and high premiums for poles over other products.**

Resource access, government red tape, local, regional and State transport infrastructure and the capacity of State Forest agencies everywhere to equitably manage and distribute Crown timber resources are perennial issues impacting on Koppers operation and profitability.

Resource Access

Securing sufficient quantities of poles in timber allocations from forest agencies and from private native regrowth forest and plantations is fundamental to critical infrastructure, rural employment opportunities and profitability of the wooden pole industry. All Koppers treatment facilities rely on some level of plantation resource. Koppers Bunbury facility is 100% reliant on plantation resource and the declining area of the plantation estate in WA is alarming. Comments made in FIFWA's submission to FIAC under plantation forest is supported.

Rural Infrastructure

The capacity of Local Government to maintain road and bridge infrastructure in rural and regional areas is limited and often supplemented by forest operations in up river areas. The de facto infrastructure support provided to local government by the forestry industry provides a significant social dimension that is not widely recognised. Industry already contributes to funding infrastructure via road charges, levies and taxes. Priority funding from State and Federal Government is required to ensure forestry can continue to operate in rural areas for important social and economic reasons.

Long Load Transport Regulation

The transport of long poles up to 30m in length require permits from State Road authorities and State Forest Agencies and Local Government where applicable. The complications of having permits approved and the required escorts in a timely fashion prohibits efficient recovery of long poles when they are produced and add to the cost to the product. Regulations between States and between State and Local Government in respect of long load haulage are highly inconsistent.

Forestry Legislation/Regulation

Legislation and Regulation supporting long term resource security is therefore extremely important to Koppers.

NSW

In NSW private native forest operations are subject to the Native Vegetation Act, The Threatened Species Act and Private Native Forest Codes of Practice for Logging all administered by EPA NSW or associated agencies (NPWS, OEH). Plantations on any land tenure is administered by DPI NSW under the Plantations and Reforestation Act. Clearing of private land and routine agricultural management activities (RAMAs) generally falls under the administration of Local Land Services. A single property including PNF, plantation and cleared land may require land use conditional approvals from 3 separate agencies. There are numerous inconsistencies and perverse outcomes due to overlapping regulation. The Baird Government is currently reviewing all legislation with a view to harmonization and this is welcomed however the NSW Forestry Framework is still difficult and requires constant attention:

The NSW Forestry Agreement covering the Upper and Lower North East and jointly signed by Ministers for environment, planning and forestry expire in March 2019.

The Regional Forestry Agreements (RFA) between the State and Commonwealth Governments for North East NSW expires in Mar 2020.

Koppers three Wood Supply Agreements held with Forestry Corporation of NSW expire in Dec 2023.

In due course the NSW Forestry Agreements and the Regional Forestry Agreements must be reviewed and renewed for FCNSW to meet pole supply commitments to Koppers and the Timber Industry until 2023.

Aligning the terms of the various RFA's and WSA's as rolling agreements will encourage investment over the longer term.

Queensland
On-going native forest access may become more challenging in Qld with a change to a Labor government and increased green lobbying. It is a fact that a forestry rotation does not fit into a political rotation, not even a cutting cycle and long term forest planning and the forest vision pursued by FIAC needs to have bipartisan support. This can only be achieved with a dedicated education program highlighting the outstanding fundamental benefits of forestry to the economy, the environment and communities.

Tasmania
Koppers are supplied hardwood poles to meet local energy distribution and foundation piling requirements for the Tasmanian market from Forestry Tasmania. Supplies from Forest Tasmania continue but appear less secure.

WA
Access to plantation resource is pivotal to the operation of the Bunbury pole facility and all comments in the FIFWA submission are supported.

In the hardwood sector Crown and private regrowth native forest along the east coast of Australia remains the preminent source of hardwood poles. Native forest hardwoods are heavily relied on by the pole industry as the species mix specified by the Utility Industry is selected based on durability and strength and very few of thees species have been selected for plantation plantings. For this reason timber from the extensive native forest estate is not readily substituted by the existing hardwood plantation estate and this situation is unlikely to change without continuing investment in timber plantings since the collapse of MIS plantations and lack of Government regulation to promote suitably structured investment incentives for selected species for these high value domestic markets.

[redacted]

Michael Combe
Resource Manager
Australian Operations
Koppers Wood Products Pty Ltd | 38 Red Lane | Trenayr via Grafton NSW 2460 | Australia
[redacted] [redacted] [redacted]
[redacted]

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Vision and Objective for the Australian forest products sector.

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

Koppers supports the comments submitted by Timber NSW under this heading.

2. What specific objectives should underpin this vision

An additional objective target here could include a forestry training and education target. (eg number of skilled forest operators or forestry diploma or degree graduates trained each year. A large part of the native forest estate is privately owned and targets to improve the level of forest management knowledge and silviculture training for PNF owners is important to achieve the vision.

Issue 1. Market Trends and Pressures

3. What forest products does Australia have a local and/or international competitive advantage?

The preminent supply of durable hardwood poles comes from regrowth native forest along the east coast of NSW north to the central Qld coast and hinterland. The qualities of Class 1 and 2 poles for strength and durability from regrowth native forest here is without peer and not replicated in plantation. Prioirty management for sustainable pole production from identified regrowth forests close to existing processing capacity will deliver high value returns to forest growers in the relatively short rotations to meet most high demand pole sizes.

4. What is the potential demand for forest products in the coming decades?

Energy Networks Australia projected annual domestic timber pole usage for new and replacement lines to be about 100,000/annum[(1)]. So the pole market is a relatively small in comparison to other timber products but highly valuable and strategically important for critical infrastructure. The pole market is fully mature, demand steady and stable.

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

There is a rich resource of poles in native forest and plantations near existing pole treatment facilities to meet existing demand. Market expansion can be achieved by better identification and capture of poles from current harvest operations and grower/contractor training.

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

Restricted access to regrowth native forest, poor plantation selection and management and inimical government regulation will negatively impact on pole supply. Wooden poles compete directly with other materials like concrete and steel in the market and any disruption to wooden pole availability will lead to a loss of pole market share to Energy Utilities.

Issue 2 Emerging uses and markets

7. Which emerging forest products have the greatest potential forAustralia

The Australian Electricity networks have in use over 7,000,000 wooden poles. Future network maintenance and expansion will require ongoing replacement of approximately 100,000 poles per annum. Poles are a very high value forest product that complement the overall mix of products produced during normal harvesting operation and are sold into critical infrastructure for Australia's future development

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

There are few barriers beyond the continued access to native forests. Best practice manufacturing assets are in place.

9. *What opportunities exist to better utilize wood resources.*

The perennial issue facing the forest products industry whether it be native forest or plantation is the low-grade wood material available in abundance in every forest operation with limited or no available markets. Simply stated markets available for what the forest produces are not matched. Selective “high grading” practices in forests without pulpwood markets have progressively degraded native forests and not provided opportunity for regeneration to establish. Even the best managed forest stands generate non-commercial material in culling that cannot be marketed due to low volume, distance to processing centers, low prices etc The key to unlocking better forest utilization is finding a market for current “waste material” and legislation to permit the use of forest biomass for energy use is one step forward. The Issues Paper has identified potential sunrise markets for this material. However start up capital is high for all these new products. Alternative low cost incentive based mechanisms have been considered before. The Southern Cross Group of forest researchers and practitioners “Proposal for Stewardships Support to Private Native Forests in NSW” (2) is strongly supported to improve forest productivity and biodiversity conservation of native forests.

Issue 3 Forest Resource

10. *What is required to ensure the plantation estate is able to meet future demand for forest products?*

Comments submitted by FIFWA and Timber NSW are supported by Koppers.

11. *What is required to ensure the native forest estate is able to meet future demand for forest products?*

Native forest continues to be the pre-eminent source of hardwood poles and high quality hardwood sawlogs and is unlikely to be replaced by hardwood plantation in the short to medium term. The stable pole market needs continuous access to timber resources both from crown reserves and native forests on private property. Crown timber reserves should be managed under the best sustainable silvicultural regimes to maximize growth and returns to the public purse Continued access under existing or less demanding regulation is important to keep the industry viable.

12. *What opportunities are there to increase forest supply from farm forestry, private native forestry and Indigenous owned and managed lands?*

Private Native Forest (PNF) in all forms across Australia constitute a high proportion of all forests, are almost entirely regrowth forest, are un-managed or poorly managed(3), are under utilized and have potential for expanding and sustainable levels of high value outputs(4). The PNF resource has been inaccurately referenced as pristine, fragile and scarce when it is highly productive, persistent, adaptive, aggressive and expanded in area in the past 60 years(3). This latter fact is chronicled in the aerial photography records available from about 1950’s to today. As noted in the issues paper there is limited use of PNF for wood production and it can be greatly expanded.

Profitable regrowth forestry is the best means of retaining large forested areas in Australia and to maximize their ecological values. The concept of the Eco-production Model(3) for native forestry introduced a forest management program with a silvicultural strategy to achieve a resource structure for sustainable yields from PNF. The conclusion to this paper resonates as strongly today as it did late last century when presented at an AFG Biennial conference and is recommended reading to inform future discussion. The eco-production model for native forest is all about appropriate silviculture for production and conservation. An updated version of the eco-production model could use forest stewardship incentive based pathways as recommended by the Southern Cross Group to promote sustainable native forestry. It offers landholders an immediate cash flow, additional resource to industry and land owner conservation outcomes. Such a program should be well supported by expert extension services with a long term commitment.. Well delivered it may even achieve the "social licence" status required to move PNF forward into the future.

The demise of the MIS plantation schemes and the rationalization of some government plantation estates has placed some large plantation areas into the hands of farmers and small investors. Some of these stands have failed or are in poor condition but some show good potential in developing into final crops. Some form of incentive or at least advice should be available to these landowners to promote the value in the trees. These plantations will become a valuable raw material in the future if managed properly.

Issue 4 Innovation Research and Development

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

Innovation and research needs to be tuned to problems that exist in the changing resource. The reliance on smaller piece size and shorter rotation wood needs to be addressed

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

The main factor is the availability of resource that will enable businesses to grow to retain competitiveness. Investment is tied to long term profitability which requires business growth. Government support for expansions to plantations and access to native forests is required

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

The framework can be strengthened by the closing the gap between research and industry. That is tuning research towards industry problems.

Issue 5: Consumer and community engagement

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

KWP supports the NSW Timber submission in this section.

17. How important are consumer awareness programs to the future prosperity of the sector

This is paramount for without consumers we have no industry. The pole customers are linked to electricity consumers so full supply chain understanding the environmental advantage of timber products is critical.

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

Forest certification is a good tool to pass on the value of wood for a sustainable future. Having wood sourced from well managed forests and plantations gains trust from the consumer and confidence in a good product.

Issue 6: Strengthened regional approaches

19.How could forestry hubs better utilise resources and promote greater efficiencies and innovation?

Forestry hubs can use existing resources in a more efficient way by adding volume to the industry. These include transport water resources and energy infrastructure. Shared raw material access and pooling of waste materials are some that benefit from hubs. Regional hubs will supply economies of scale to all inbound and outbound supply chains. Fragmentation of the industry in a fast globalizing market needs to be corrected

20.What have been the barriers to the establishment and efficient operation of forestry hubs to date, and what might be the role of the Australian Government in addressing these?

Barriers include local government planning and costs of relocating industry. The unavailability centralized large forest estates. The 'Hubs' concept simply requires large volumes of timber to extract the benefits of economies of scale. Government support for major forest expansions in regional high quality forest sites is required.

21.If additional forestry hubs are to be established, where would they best be located?

Most forestry hubs are in place due to the gravitation of timber industries towards their resource. Forestry hubs need further development in the way of infrastructure and lessening of barriers to promote efficiencies. So first the forests need to be established in regions with a competitive advantage, good road, rail infrastructure and proximity to ports.

Issue 7: Infrastructure

22. What infrastructure will be required to respond to future demand for Australian forest products?

Infrastructure required include better roads in particular bridge replacements in rural areas. Increased powerline efficiencies to reduce costs and broadband capabilities are also needed to allow for office relocation to regional areas. Again efficient Port facilities to enable export competitiveness is critical in a globalized marketplace.

23.What can be done to ensure better recognition and understanding of the sector's infrastructure needs?

The recognition of the importance of the timber industry in regional areas is the key to getting infrastructure upgrades.

Issue 8: Industry skills and training

24.What are the skills and training needs of the sector over the coming decades, and where are the current gaps?

The need for training to meet the skill requirements of the industry is ongoing. The regional cities have lost many facilities for training so that travelling may be required. Reinstating industry focused training in regional areas would aid industry requirements. Higher education at local universities is adequate. The supply of high quality resource will attract required training suppliers.

25.Are Vocational Education and Training and university training providers well-positioned to meet the future skills and training needs of the sector?

Existing training providers and universities could be more focused on the needs of the timber industry as some courses can be very general and time consuming.

26. What improvements are required at an enterprise level to support the recruitment, development and retention of the sector's current and future workforce?

The timber industry needs to have profitable long term businesses that will provide well paid, secure employment. Focused efficient training providers and higher education facilities need to be available to provide the skills needed in the timber industry.

References

1 Leslie Francis and Jack Norton for Energy Networks Australia (2006) "Australian Timber Pole Resources for Energy Networks – A Review Sponsors Innovative Forest Products, Horticulture and Forestry Science and Dept of Primary Industries and Fisheries Qld.

2 The Southern Cross Group of forest researchers and practitioners (2006) "A proposal for Stewardship Support to Private Native Forests in NSW".

3 AFG Biennial Conference Proceedings Lismore 1998 ed Dyason, Dyason & Garsden M Combe, GL Unwin, R Dyason & RJ Peacock "Resource profile of high graded dry hardwood forests: implications for improving productivity".

4 M O'Neill (1994) "North Coast Forest and Plantation Resource Study". NRRDB Casino NSW