

The future of Australian forest and wood products sector

Communique from Chatham House Rule strategy conversation 13th February, 2013

A meeting of some senior industry executives was convened in Melbourne at the historic Chapter House to discuss the current challenges facing the industry, review learning's from international jurisdictions and to explore whether there are opportunities to assist industry development at a strategic level.

The well attended meeting was held under the Chatham House Rule. The Chatham House format was chosen to promote an open conversation between industry executives at a personal level rather than from a sector or company-specific perspective.

Attendees expressed a wide range of opinions and the broader industry's profitability and economic sustainability over coming years. Some attendees felt that the current circumstances are not as dire as portrayed by some observers and that combined market forces will continue to create globally cost competitive supply chains to match market demands whether sourced domestically or imported.

There was some discussion on the current tension between forest growers and processors about log pricing in a market where housing construction is approaching a 13-year low. Others noted that long term demand for building materials was strong due to population growth, although there was a trend toward apartments that could impact on traditional timber products. Despite the long-term prospects, the area of commercial estate planted for sawlog production has not increased in the past 20 years, which has the potential to constrain future investment and viability of the processing sector.

It was suggested that industry should view itself as integrated value chains from resource to market and that individual value chains compete in the market place. This requires improved collaboration and a common language between individual participants in each value chain.

The importance of markets for non-sawlog products was highlighted as the value chains must have access to domestic and/or export markets for pulpwood and mill residues – whether that is traditional reconstituted products (e.g., pulp, paper, panel board), new bio-materials or bio-energy. The long-term economic viability of some existing regions is potentially under threat because they do not have a ready market for these residue products.

In a discussion of the key market drivers it was agreed that the current exchange rate, the collapse of North American and European housing markets and growth of the Vietnamese woodchip sector has strongly impacted on Australian growers and processors. It was felt that a short term action agenda for the processing sector could be developed to generate new revenues sources and markets for processing by-products.

Based on the input of several international guest speakers, there was recognition that the Australian sector could learn from the good and bad experiences of other jurisdictions. For example, in Canada there has been a government and industry commitment to collaborative innovation to deal with the structural issues that their sector was facing and this has led to significant changes in the way the industry operates and the product range delivered.

There was also support for initiatives that may stimulate market demand through improved mechanisms to finance new house construction such as personal superannuation or through building alliances with environmental organisations and creating agreement on the environmental credentials of wood products compared to other materials.

The meeting participants did not establish a common position on the primary challenges and opportunities that industry should be jointly progressing through representative bodies and associations and did not reach agreement on either short or long term action plans for the industry.

One of the issues explored in the day's discussions was the relatively low level of collaborative activity being undertaken for the collective benefit and growth of the industry. It is understood that there are a number of joint initiatives under development but there was no willingness to put these out for broader discussion even with the protection of the Chatham House Rule.

The level of leadership dialogue and consensus established on the day was disappointing. This may be a consequence of the format of the strategy conversation, the large number of participants and the poor meeting room acoustics.

There is also an unresolved tension between those who believe that market forces will prevail and those who see industry collaboration, in conjunction with government support, as the way to accelerate change and attain viability within the sector.

As the meeting facilitator, who was previously involved in establishing an industry accord that ultimately led to the formation of the National Association of Forest Industries, I offer the following actions to move forward:

- Developing a leadership team to help drive innovation and change in the industry.
- Getting all peak industry groups working together ensuring inclusion of all key parts of the value chain.
- Getting collaboration back on the agenda including the parties where supply chain tension exists.
- Developing a short and medium term action plan to stabilise the industry while doing the inspirational thinking on future directions.
- Influencing policy makers at both State and National level. This requires a focussed, succinct and compelling value proposition that attracts interests of both major parties.
- Looking at innovative ways to encourage the sustainable growth of the forest asset in the right places such as farm forestry, carbon pricing, co-cropping, regional cooperatives, off take agreements, integrated utilisation.
- Reviewing priorities of R&D to include new generation processing around manufacturing, value add and novel technology.
- Building credibility of the industry with environmental organisations, broader community, decision makers and funders.
- Leveraging existing government initiatives for the benefit of the industry.
- Make forestry and forest products a Sunrise NOT Sunset industry (*One Vision, One Strategy*)

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Facilitator

DISCLAIMER:

The strategy conversation was initiated by Forest and Wood Products Australia Limited (FWPA) with the clear proviso that this initiative was in the interests of the broader industry and not about FWPA and its activities.