

2011



6th May



Submission to Legislative Council Sessional
Committee Government Administration A

Proposed Transition Out of Public Native
Forests

Executive Summary

- The Furnishing Industry is a major employer in Australia -103,000 jobs
- It has been under severe threat from imports in the past ten years - 50 business closures in recent years in Vic/Tas alone
- The industry is reduce to a skinny 5% nett of sales margin
- Timber is a substantial input cost for many, and is 25-35% of the total for the third of businesses most affected
- This means large rises in timber costs will send many businesses into the red, particularly so in Tasmania
- We estimate that domestic free standing furniture production in Tasmania is \$15-20 million per annum, almost all of this relies on native timber, and special species in particular.
- Tasmania supplies a fair proportion of Victorian needs for quality native timber, a 50% cut in production must lead to large price increases there as well
- We believe that the likely effects of locking up the area claimed by the ENGO's will inevitably result in the closure of many businesses both in Tasmania and Victoria
- We are only one of a number of downstream industries affected
- Plantation timber is not an acceptable substitute - 60 years is the minimum growth period for high value-add applications
- The Government has a responsibility to seek the best long term outcome for the whole industry
- There is simply no sense in a transition out of native forests, it is unnecessary economic vandalism driven by ideologues



ABN: 15 443 447 002

6th May 2011

Stuart Wright
The Secretary
Legislative Council Sessional Committee Government Administration A
Parliament of Tasmania
Parliament House
HOBART TAS 7000
Email: stuart.wright@parliament.tas.gov.au

Submission into the Inquiry into the Proposed Transition Out of Public Native Forests

Dear Mr Wright,

I refer to the abovementioned inquiry and make the following submission for consideration by the committee. It is our desire that the Committee will invite us to make face-to-face submissions if that opportunity is available.

Furnishing Industry Association of Australia (Vic/Tas) Inc. is an industry association representing the furniture and furnishing industry in Victoria, and Tasmania. We also represent Furniture and Bedding Industry Association of Australia Queensland and the Furnishing Industry Association of Australia WA Inc. on this issue. For the sake of brevity we will refer ourselves as Furniture Australia in this submission.

The furnishing industry is a major manufacturing sector employing over 103,000 people across the whole industry Australia wide (FurnitureTrend 2010). Victoria and Tasmania represent around 30% of that total. The domestic freestanding area of the industry represents almost half the total. This part of the industry is under severe pressure, with over 50 business closures (Vic/Tas alone) in the past five years. Profit margins as a percentage of sales are around 5% (FurnitureTrend 2010), which is very low by manufacturing benchmarks.

Approximately a third of Furniture Australia's total membership manufactures using hardwood as their primary raw material, and this is around 25-35% of their manufactured cost (including labour). Our Tasmanian membership are all timber manufacturers with only one exception. A survey of members taken in the past week shows a very high sensitivity to timber costs increases, due to the inability to pass on cost increases. The threat of import substitution is the

obvious issue. Simple arithmetic will show that an increase of 10% wipes out most of their profit, and 20% threatens their existence. This is consistent with the responses given by members in the survey.

Our Tasmanian members are extremely concerned about the impact on their businesses of the current negotiations. They are needless to say the most vociferous and vehement of our members on the issue. They strongly believe they will be severely affected in all but a couple of cases.

We have read FIAT's submission and it is very clear that the impact on supply will be devastating should the ENGO's succeed in their claim for further lock up of native forest areas.

However, we believe the issue goes well beyond the effect on our Tasmanian members. While there is no hard data on the precise amount of quality hardwood timber that ships between Tasmania and Victoria, only one of the members we surveyed did not purchase some timber milled in Tasmania. For many it was a very important source.

In support of this contention I offer figures from an ABARES 2007 sawmill survey report that shows that the sawlog harvests in Tasmania are around 2/3's of those in Victoria (Vic – 733,000m³ vs Tas – 528,000m³). This would make a 50% reduction in milling in Tasmania result in a significant reduction in supply to both markets. Long experience says that timber is like any commodity market and prices will increase sharply in response to major reductions in supply. We have also done the numbers on Forestry Tasmania's annual report and believe they must require increases in sawlog prices of 30-50% in order to continue to cover their fixed costs.

This combined with the effect of supply reductions leads us to predict a probable 20% or more cost increase in the cost of quality native hardwood timber. This will either price a substantial number of our members out of business, at a time when many are on the brink, or force them to find import substitutes. If imported timber is substituted then our members lose a very important marketing edge that will still result in less business. Either way Australia loses jobs locally, and needlessly.

We believe the basis for the negotiations are fundamentally flawed and the Government's at both levels face a potential electoral backlash unless they are seen to protect the native forestry industry from proposed gutting of its scale.

We believe that FIAT has demonstrated the inability of plantation timber to replace native timber for higher grade applications in less than a 25 year time frame. We would go further and argue that there is no certainty that even *globulus* could replace the current native species harvested as a source of quality raw material for our industry. We think the concept of plantation eucalypt as a replacement for the current supply of appearance grade timber is a gamble – and it is the business and workers in our industry that are the chips being thrown on the table by the ENGO's. We maintain that only native timber of 60-80 years rotation can provide the kind of certainty of long term supply that our members require.

Furniture Australia believes this is a flawed attempt to resolve a complex issue. We need a "green" and sustainable forestry industry from which to source Australia's unique and beautiful timbers, they are a key point of difference to imported product. We also need that industry to be of an economic scale and able to get full recovery of the logs harvested. The "Statement of Principles" gives veto power to groups that have not shown a grasp of the science and economics that underpin a competitive industry. We believe the government needs to ditch these negotiations and restart on a rational basis, a process that will produce the best solution for Tasmania and Australia.

In conclusion we submit that there is no rational reason for contemplating the locking up a amount of resource that supports so many jobs and business. Enough is enough, and it is time to draw a line in the sand and tell the green ENGO's that the small area remaining is not on the table – ever. We would like to see the same effort being put into the current negotiations instead utilised in an orderly restructure of the resource allocation, and to finding optimal markets for the whole industry output.

This will result in our industry having access to a quality raw material at an affordable cost, and hence our members in Tasmania and Victoria being given the best chance to keep employing people.

Our organization looks forward to making further presentations if the opportunity arises.



Rohan Wright
General Manager
Furnishing Industry Association of Australia (Vic/Tas) Inc.

On behalf of:
Furniture and Bedding Industry Association of Australia Queensland
Furnishing Industry Association of Australia WA Inc.

Suite 2, 600 Doncaster Road,
Doncaster, 3108
Website: www.fiavictas.org.au
E: rwright@fiaavictas.org.au

T: +61 3 9856 1600
Direct: +61 3 9856 1602
M: 0467 576 707
F: +61 3 9856 1611