Asia Pacific Forest Industries Climate Change Conference

Pulp and Paper Industry
- The Way Forward

Jim Henneberry – August 2008

GO GREEN WITH ENVI

Australian Paper

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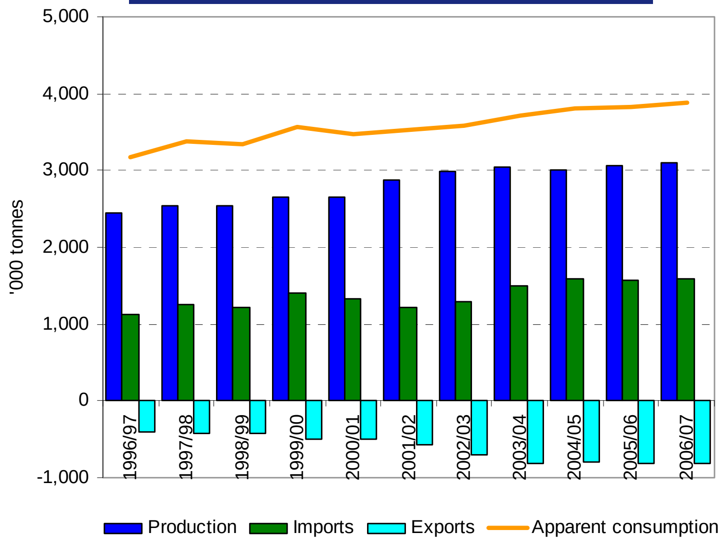
1. Overview: The Pulp & Paper Industry

- Major Australian manufacturing industry:
  - Economically efficient industry
  - 19,000 employees (ABS)
  - Annual turnover over $8 billion
  - Regionally based, dependent communities
  - Essential market for pulpwood – underpins viability of forest/plantation supply chain
- One of the largest emissions intensive trade exposed non-metal manufacturing industries
- Industry strengths:
  - Produces full range of paper products
  - Growing domestic production and consumption
  - Increasing exports
- But Australia small player in global market
  - High import penetration
  - Australian prices dependent on global market conditions
  - Major competitors in developing country ‘emission havens’

Apparent Consumption of Paper & Paperboard in Australia



Socio-Economic Importance of the Industry

- $2.7 billion contribution to GDP, accounts for 2% of total manufacturing sector
- Underpins viability of forest/plantation supply chain – accounts for about 30% of all wood processing in Australia
- Large processing facilities in several regional towns provide important source of employment and economic activity, including:

Location	Company	Direct Employees*	% of Local Labour Force
Maryvale (Gippsland), Vic	Australian Paper	800	3.1%
Millicent, SA	Kimberley-Clark	630	12.0%
Tumut, NSW	Visy	191	3.6%
Albury, NSW	Norske Skog	260	1.1%
Boyer, Tas	Norske Skog	340	2.7%
Burnie and Wesley Vale, Tas	Australian Paper	500	1.6%

** Approximate figures provided by companies*

- Significant flow on-effects:
  - Regional economic activity
  - Dependent jobs – forest management, harvesting, haulage
  - Technical and professional skills drawn to regions e.g. engineering

Source: URS

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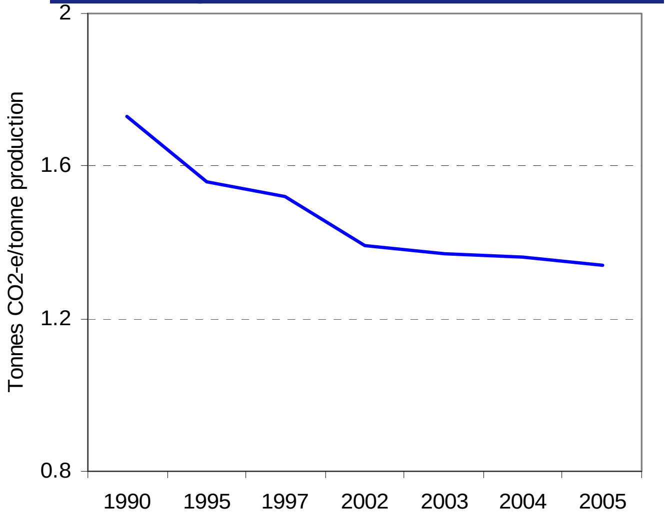
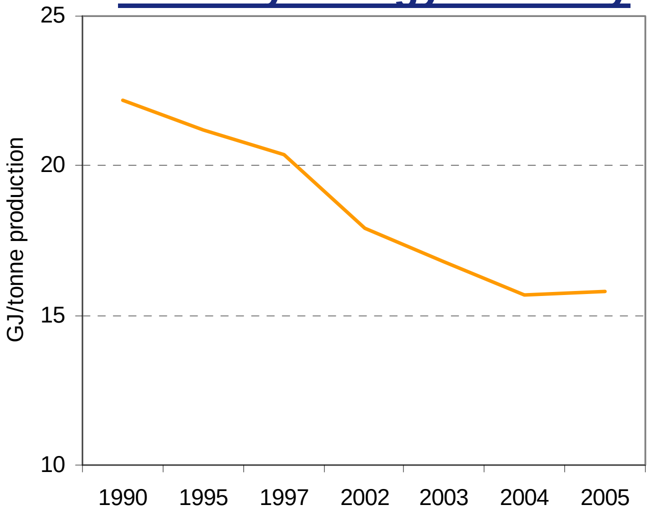
Commitment to the Environment

- Pulp and paper industry supports market based approaches to climate change policies
- Demonstrated committed to continuous environmental improvement:
  - 29% of energy use is from renewable sources
  - Industry emissions reduced by 22% since 1990
  - 48% of fibre furnish is recycled material, diversion from landfill
  - Water consumption reduced by 65% per tonne of paper produced since 1990
  - Most companies have environmental and emissions reduction targets that they continue to work towards

Industry Emission Reductions



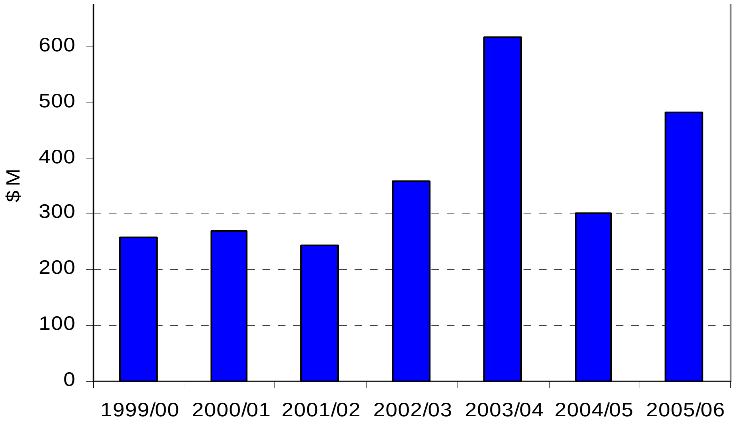
Industry Energy Intensity



Investment

- Industry has continued to invest in capital to maintain competitiveness and improve environmental footprint:
  - Installation of world best practice technology
  - Replacement of coal boilers with natural gas fired boilers
- Examples:
  - Amcor: reduced emissions by 30% since 2003
  - Australian Paper: reduced emissions by 23% since 2001
  - Norske Skog: reduced emissions by 30% per tonne of paper produced since 1990

Industry Capital Expenditure



Recent and Current Major Investments:

2004: $290M tissue mill upgrade, Millicent

2006: $130M newsprint mill upgrade, Albury

Now: $310M expansion of pulp and paper mill, Maryvale

2009: $500M upgrade of pulp and packaging mill, Tumut

2010: $480M new packaging paper machine, Sydney

Source: URS

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2. Regional Importance of Australian Paper

The following summary shows the long term impact on key regions if Australian Paper's manufacturing presence was to be withdrawn. Importantly, these are the impacts after long term adjustments have occurred, including some workers finding alternative employment and capital being re-deployed.

Maryvale

Without the Maryvale mill, the long term effects on the Gippsland and McMillan electorates have been calculated as

- GDP down by **2.2 per cent or $324 million**
- Household spending down by **2.5 per cent or $178 million**
- Investment down by **1.5 per cent or $69 million**
- Real wages down by **1.3 per cent**
- **1,028 long term job losses**

Shoalhaven

Without the Shoalhaven mill, the long term effects on the Gilmore electorate have been calculated as

- GDP down by **0.7 per cent or $37 million**
- Household spending down by **0.7 per cent or $25 million**
- Investment down by **0.8 per cent or $13 million**
- Real wages down by **0.4 per cent**
- **158 long term job losses**

Burnie and Wesley Vale

Without the Burnie and Wesley Vale mills, the long term effects on the Braddon and Lyons electorates have been calculated as:

- GDP down by **3.4 per cent or $253 million**
- Household spending down by **3.2 per cent or $157 million**
- Investment down by **2.9 per cent or $60 million**
- Real wages down by **1.7 per cent**
- **813 long term job losses**

Three regions combined

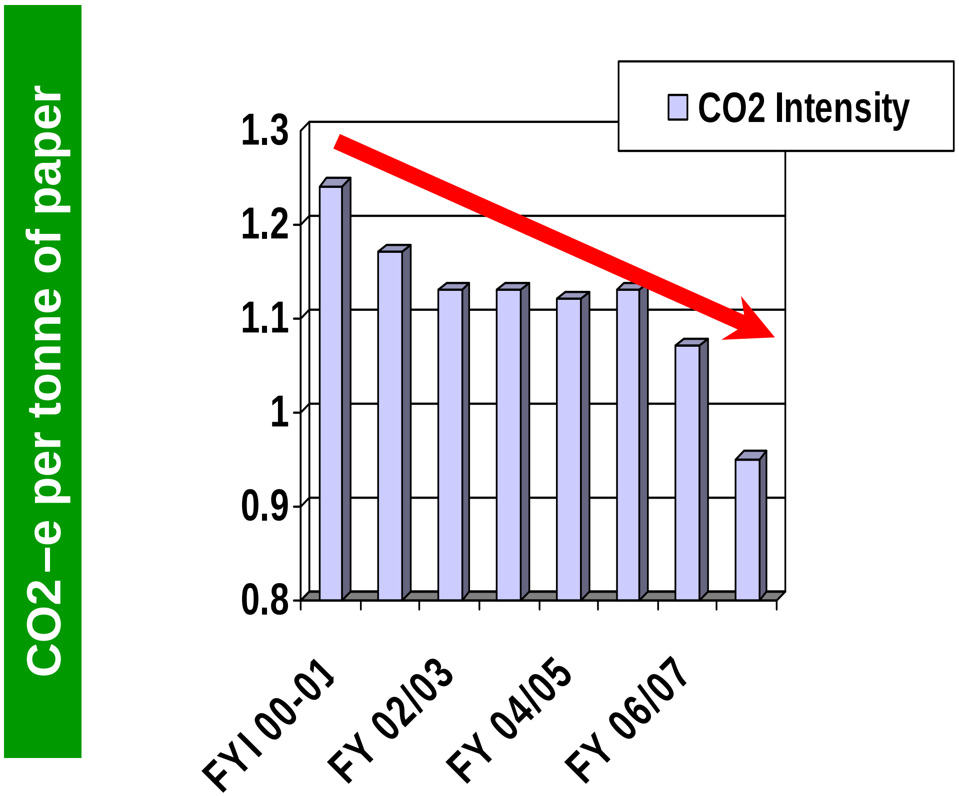
In the three regions combined, the effects of losing the four Australian Paper mills have been calculated as:

- GDP down by **2.3 per cent or $614 million**
- Household spending down by **2.3 per cent or $360 million**
- Investment down by **1.7 per cent or $143 million**
- **1,999 long term job losses.**

Source: PriceWaterhouse Coopers

Australian Paper – Carbon Footprint

Greenhouse Gas Emissions per tonne of Paper Manufactured



Year	Green House Gas Emissions (CO2-e) per tonne of paper
2000-01	1.24
2001-02	1.17
2002-03	1.13
2003-04	1.13
2004-05	1.12
2005-06	1.13
2006-07	1.07
2007-08	0.95

23% ↓

(fossil fuel sources)

3. Issues with Green Paper

- Green Paper fails to deliver on its intent of EITE:
  - Undervalues highly traded exposed industries' vulnerability to loss of international competitiveness
  - Arbitrary 90% and 60% compensation thresholds based only on emissions
- Revenues as a denominator does not adequately reflect ability to absorb additional costs. This is more closely related to profit margins.
- Industry has ongoing commitment to continue to reduce emissions, but measures to maintain international competitive are needed in the interim.

Source: URS

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4. The Way Forward

- Variation to Emissions Trading Scheme to reduce emissions / reduce leakage (jobs and carbon)
  - Emissions Intensive to Trade Exposure
    - Focus on trade exposed not energy intensive
    - Avoids job and carbon leakage overseas
    - Supports jobs in industries that can’t pass on costs
    - Still clear and practical to monitor but better message
    - Supports emission reduction

Emissions Intensity to Trade Exposure Improvements

- Trade exposure needs to be a clear test and filter
  - Highly trade exposed
  - 50% $$\left(\frac{\text{Imports + Exports \$}}{\text{Domestic Production + Imports}} \right)$$
- Different set of compensation thresholds for highly trade exposed industries
- Revenue as a denominator is simple but unfair. Alternatives:
  - Value Add (Revenue – Import Costs + Labour)
  - EBIT

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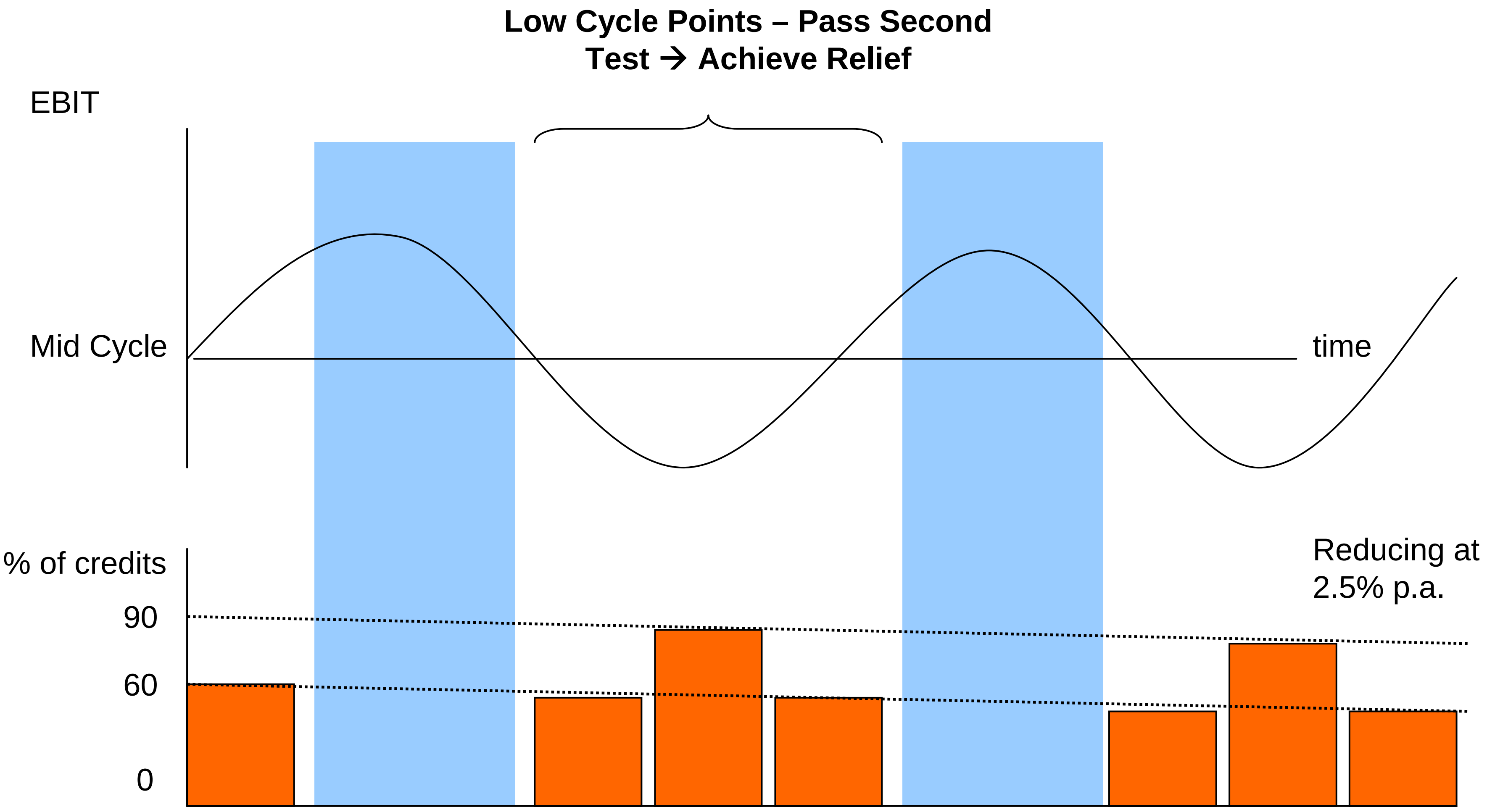
Carbon Intensity / EBIT (Value Measure)



5. Summary

- Importance of Pulp and Paper to the Australian economy
- Regional importance of Forest, Wood Products, Pulp and Paper sector
- Inter-dependence of each supply segment
- Support the Government commitment to carbon pollution reductions.
- Model needs to reduce emissions and avoid jobs and carbon leakage.
- More emphasis on trade exposure and a simple but fair formula for measuring intensity.