PRODUCTIVITY COMMISSION REPORT INTO WASTE MANAGEMENT

Submission
July 2006

For information on this document,
please contact:

Simon Talbot
Corporate Relationship Manager
Australian Paper
ph 03 8540 2382 fax 03 8540 2284
mob. 0419 108 928

simon.talbot@australianpaper.com.au

CONTENTS

1. INTRODUCTION TO AUSTRALIAN PAPER

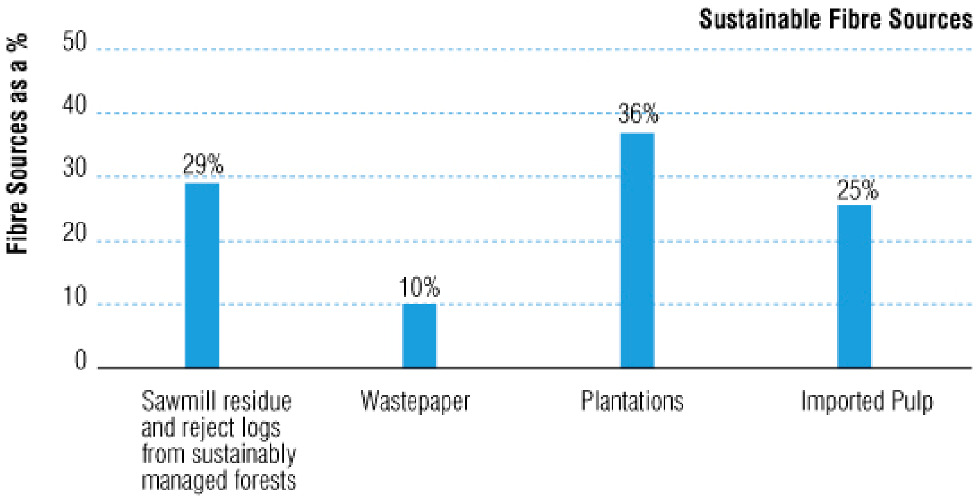
PaperlinX is a leading international marketer and a leading Australian manufacturer of fine communication papers and high performance packaging papers. Our products and services include: Office Papers, Printing and Specialty Papers, Packaging Papers and Paper Merchanting and Distribution Services.

Australian Paper is the only paper manufacturing operation in the PaperlinX Group, supplying communication and high performance packaging papers to the Australian market through sales to PaperlinX Merchanting operations and other third-party merchants and packaging manufacturers.

In 2005 Australian Paper directly employed approximately 2000 Australians, predominately in regional locations. Indirectly Australian Bureau of Statistics (ABS 2005[1]) measures indicate that we contribute 9500+ full time equivalent jobs to the Australian Economy.

On an annual basis Australian Paper manufacture 900,000+ tonnes of paper from NSW, Victorian and Tasmanian plants. The manufacture of these products requires considerable fibre input. The main fibre sources for our operations are as defined in Figure 1 below:

Figure 1.0 Fibre Sources Australian Paper 2005.



Waste fibres (waste paper) currently make up 10% of our fibre usage (Attachment 1 PaperlinX recycling). These fibres represent a considerable opportunity in terms of % growth as a feedstock material.

Waste fibre usage also presents significant environmental and social benefits to the Australian community. As detailed in this brief submission, the growth of waste papers in our production feedstock is significantly inhibited by the low level of regulatory assistance and leadership; particularly in comparison to other Organisation for Economic Co-operation and Development (OECD) nations.

[1] Australian Bureau of Statistics, 6302.0 Average Weekly Earnings, Australia,.

2. IMPORTANCE OF RECYCLING

At present the Paper industry is at a cyclical low with flat global demand for paper, with increased supply and an increase in cheap imports into the Australian market. These factors are magnified by:

1. The Strong Australian dollar through:
   - lower average Australian paper selling prices;
   - reduced receipts from exports; and
   - increased competition from lower priced imports;
2. Increasing distribution costs;
3. Reduced Australian Paper sales volumes and margin through lost market share due to competition from lower priced imports.

One of the few areas of market growth is in recycled products. We have committed considerable resources (Figure 2.0) to ensure that the Australian consumer is capable of purchasing a comprehensive range of Australian Made recycled brands ie office papers, stationery, envelopes and magazine papers.

Figure 2.0 Recycled Waste Fibre Sources Australian Paper 2005.

Location	Operated by	Tonnages	Status
Maryvale Mill - Victoria	Australian Paper	10,000* tns per year of kerbside waste. 40,000* tns per year of used cartons and packaging waste.	Operational
Shoalhaven Mill - NSW	Australian Paper	4,000 tns per year of liquid carton board. 3,000 tns per year of cotton linters. 18,000 tns per year of printers and converters waste.	**Closed** Jan 2005
Fairfield - Victoria	AMCOR	30,000 tns De-inked Pulp	Operational

The market response to our recycled brands has been significant and we are able to divert some 75,000+ tonnes of waste fibres (from Australian landfill) directly into our recycled paper grades.

Future growth and capital expenditure in this market segment is very difficult without Federal Government leadership (due to importers receiving significant support from their country of manufacturer).

Our main competitors in this market are USA and European sourced papers. These producers share a number on inequitable advantages which may include:

> ***"Unlike all our competitors, we are the only Paper manufacturer who supports Australian recycling facilities and Australian recycled office products."***
>
> David Goldthorp
> Chief Operating Officer

- Significant intra-country transport/collection subsidies pertaining to recycled fibre procurement.
- Mandatory waste product procurement practices by state and corporate agencies.
- The absence of sales taxes on recycled goods.
- Ancillary incentives for the export of "landfill waste".
- Government subsidies that directly assist the capital establishment of recycled facilities and pulp plants.

The net result of importer subsidies and the higher cost of recycling in Australia is that imported recycled pulps can potentially be supplied and delivered to our production plants at a lower cost than those manufactured in Australia. The effect of this could be that significant volumes of Australian waste paper are no longer diverted from Australian landfill.

In essence we would be importing a USA/European waste stream and Australian waste paper recycling facilities could close.

To date we have chosen to continue using Australian waste to produce Australian products.

In order to ensure the viability of this strategy Australia must achieve an economy of scale in relation to De-inked Pulp Recycling plants.

To highlight the impact of the current market and difficulties operating with inequitable imports - we have had to permanently close our NSW recycling plant and associated S1 Shoalhaven machine in Bomaderry (NSW) reducing the workforce by 45%, see Appendix 2 – Shoalhaven Mill Case Study.

.

3 ISSUES OF CONCERN WITH THE PRODUCTIVITY COMMISSION'S WASTE MANAGEMENT (DRAFT REPORT).

Australian Paper has investigated some of the key parameters pertinent to the waste management of paper in Australia and compared these with the actions of Free Trade Agreement (FTA) partners and fellow OECD nations. Whilst this review is not exhaustive, it aims to highlight inequities and provide some basis for Federal Government leadership.

Procurement Policies

Australian Position
Most State and Federal Government Departments have readily accessible "Green Procurement" guides. Whilst these guides accurately portray recycled products they have not significantly changed Government purchasing strategies.

FTA Partner and OECD Position
Australia's FTA partners and many OECD member nations have mandated Recycle/Waste product procurement. The most notable of these is in the USA where Clinton's Executive Order 12873, as amended March 28, 1996 stipulated that 30% post-consumer content requirement for high speed copier paper and offset papers.

Education, Training and Awareness

Australian Position
Minimal national leadership on waste management and recycling initiatives. Most initiatives are driven by peak bodies supported by industry. State waste management and recycling initiatives are not comprehensive and lack a coherent national framework of education and training.

FTA Partner and OECD Position
Denmark, Singapore, US and UK have significant national frameworks covering whole of school education on recycling and waste management. These systems set stringent national KPI's on wastes of significance and ensure State funded capital investment and associated support is provided for waste minimisation, research and development projects.

Subsidies/Tax Incentives

Australian Position
Tax Incentives as utilised in the 1990's have led to market distortions and the import of recycled products without a net environmental or social benefit to Australia; as detailed in "Environmental Economics Research Paper No.5", *Consultancy report prepared by: Dr David James, Ecoservices Pty Ltd Commissioned by Environment Australia.*

FTA Partner and OECD Position
The majority of OECD and European Union (EU) member nations received subsidies and tax incentives covering the processing, transport, sales of recycled waste materials.

Asset/Capacity Building

Australian Position
Minimal "industrial scale" Federal or State Governmental assistance has been provided for reprocessing of waste office and printing papers.

FTA Partner and OECD Position
The UK, USA, Denmark, Germany and Sweden all have/had significant Government leadership and associated investment in world scale recycling and reprocessing activities. Such schemes generally followed the following criteria:

1. The plant must process a waste stream of "State Significance".
2. The plant/facility must be either research based and/or of industrial size so as to achieve economies of scale.
3. That plants use greater than 50% waste material feedstock and progressively eliminated virgin feedstock material.

4 CONCLUSION

Australian Paper has observed significant local demand for recycled paper products. We have attempted to meet this demand with Australian Made recycled papers utilsing Australian waste.

Global market inequities have resulted in significant imports of recycled papers, these imports generally benefit from market based subsidies within their country of manufacture.

Without Federal Government leadership on waste management it is difficult for Australian organisations to compete on a level playing field.

As such, Australian Paper encourages the Productivity Commission to review the schemes and programs adopted by OECD member nations so as to determine those that offer sustained social, environmental and economic deliverables.

We concur with the following Productivity Commission's findings:

1. That sales subsidies for recycled materials will not have significant positive environmental or social benefits to the Australian community, ie Importers (who are predominantly subsidised in their manufacturing) will gain greater advantages at the expense of a suffering Australian recycling industry.
2. That where assistance of recycling is likely to result in net social benefit, subsidies that directly target the relevant recycling activity should be preferred.

In conclusion, we would support a structured user pays levy system (similair in concept to that of Waste Oil). It would be expected that received funds directly support the education, collection, transport and facility processing of waste paper into recycled products. Such a levy should reflect the true cost of landfilling waste paper[2].

[2] The Waste Management Authority of NSW in 1999 estimated that the true cost of waste paper to landfill was in the vicinity of $178-200 per tonne.

APPENDIX 1 – PAPERLINX AND RECYCLED PAPERS (2004)

January 2005

PaperlinX and recycled papers

Responsible reuse of fibre resources

PaperlinX is committed to environmental sustainability which includes the use of recycled fibre. In 2003/2004, 10% of Australian Paper's fibrous raw material was from recycled sources. PaperlinX uses this material to create numerous high-quality recycled products, including office and specialty papers.

PaperlinX's recycled products / Wastepaper Recycling

Australian Paper, a subsidiary of PaperlinX, offers a range of recycled or partly recycled products. These include:

- Renew 80 office paper – 80% recycled
- Renew 100 office paper – 100% recycled
- Reflex 35% Recycled 80gsm – 35% recycled
- Xerox Green wrap office paper – 50% recycled
- Postspeed – 60 - 100% recycled
- Onyx – 100% recycled
- Tudor RP laser – 100% recycled
- Prologue laser – 100% recycled

Recycling at the Shoalhaven Mill

PaperlinX's Shoalhaven Mill has been Australia's leading manufacturer of high-quality recycled papers for more than 35 years. Its de-inking plant, built in 1979, was until recently, the only one in the country.

The recycling processes at Shoalhaven Mill are constantly being developed and expanded to ensure that the mill continues to lead fine-quality recycled paper production. For example, Shoalhaven is the only mill in Australia with the technology to recycle milk and fruit juice cartons into fine paper grades.

In 1994, the mill's capacity was expanded significantly to around 100 tonnes a day. In total, more than 30,000 tonnes of waste paper are processed at Shoalhaven Mill every year. That accounts for approximately half of the fibre used at the mill.

In fact, Shoalhaven consumes almost all of the suitable waste paper available to Australian Paper for manufacturing fine papers. This makes it unnecessary to run recycling operations for fine paper grades at other mills.

Recycling at the Maryvale Mill

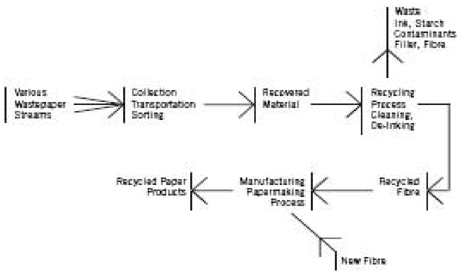
PaperlinX also has recycling operations in place at Maryvale Mill. Here, up to 55,000 tonnes of waste paper products is turned into cardboard and other brown packaging papers.

Responsible choice of fibre sources

PaperlinX recycles waste from both pre-consumer and post-consumer sources collected from around Australia. Drawing a distinction is not useful: regardless of the source, if the waste paper were not recycled it would be thrown out. Recycling is clearly the superior option, whether the paper happens to have reached the consumer stage or not.

It is also more costly to collect, clean and re-use post-consumer waste. Using pre-consumer waste as well helps to keep quality high and prices low, making recycled paper a meaningful option for consumers.

Wastepaper Recycling



Recycled and new fibre are both needed

While recycled fibre sources play an essential role in Paperlinx's manufacturing processes, new fibre must constantly be added to the process. Research has shown that paper can only be recycled about five times before its fibres start to break down and must be augmented with new fibre.

De-inking and pre-processing

Nobody wants recycled office paper that is grey and full of specks. The Shoalhaven Mill has processes in place to ensure that its recycled products are of consistently high quality.

De-inking is carried out during the re-pulping processes. Detergents and alkali are used to help detach any ink from the paper's fibre as it disintegrates. This ink is then washed away to effluent treatment.

Paper from milk and juice cartons do not require de-inking, as the ink is applied directly to a laminated polyethylene film. It is necessary to remove this film. This is carried out separately from the de-inking process, and the two waste streams are combined afterwards for further processing.

The future

PaperlinX continues to look for new sources of sustainable waste paper and ways of utilising recycled fibres in their range of products.

PaperlinX

307 Ferntree Gully Road
Mt. Waverley Victoria 3149
AUSTRALIA

For more information please visit
www.paperlinx.com.au
or email
environment@paperlinx.com.au

Shoalhaven Mill has been Australia's leading manufacturer of high-quality recycled papers for more than 35 years.

Shoalhaven is the only mill in Australia with the technology to recycle milk and fruit juice cartons into fine paper grades.

In total, more than 80,000 tonnes of waste paper products can be processed by PaperlinX every year.

PX20050101

Printed on Tudor RP Laser 100gsm

APPENDIX 2 – SHOALHAVEN MILL CASE STUDY

In 2004 the Shoalhaven Mill was a major regional employer in Southern NSW (2 hours from Sydney) employing 236 people plus a further 56 permanent contractors. It had an annual wages and salary bill of some $20 million and additional expenditure in the local area in the order of $12 million per annum. These two expenditures, approaching $35 million per annum, would provide, on a multiplier of 5 – 6 times, annual regional expenditure of $180 to $200 million.

In 2006 the Shoalhaven Mill is a vastly different operation. Global and regional pressures have led to the closure of the recycling plant, main Paper Machine "S1" and the loss of some 120 permanent jobs. The net effect on the Nowra region has been an economic loss of some $90 to $105 million per annum and increased reliance on replacement imported papers.

Key decisions that led to the Machine Closure:

1. Cheap importation of similar products often with dubious social and environmental performance;
2. Little or no market premium for recycled content papers.
3. High relative cost of manufacturing recycled pulp when compared with subsidised importers.
4. Little or no State or Federal Government assistance in asset establishment/upgrade.
5. Strong Australian dollar;
   - lower average Australian paper selling prices;
   - reduced receipts from exports;
   - increased competition from lower priced imports; and
6. increasing fuel / distribution costs;

The Shoalhaven restructure reflects Australian Paper's broader rationalisation of business and production systems so as to remain viable as an Australian manufacturer. Much of the Shoalhaven recycled product has been transferred to the Victorian, Maryvale operation, where larger scale recycling and production economies exist.

ATTACHMENT 3 EXAMPLE SUMMARY'S - MANADATORY RECYCLED/WASTE PRODUCT GUIDELINES

Alaska	1994 state law requires that 25% of all paper purchased by state agencies be recycled. In order to be considered recycled, paper must include 50% "waste paper." Both pre and postconsumer materials qualify as "waste paper." State law also specifies that a 5% price preference be afforded to recycled paper.
UK	In 2001-02, seven Departments purchased more than 70 per cent of their desktop paper made of minimum 80 per cent post-consumer waste; in 2002-03, 11 Departments (C & E, DCMS, DfID, DfT, DoH, DTI, FCO, HMT, LOD, ODPM and ONS) purchased over 75 per cent of their desktop paper which met this specification (as set out in the '*Green Guide for Buyers*').
Arkansas	1991 state law requires that 60% of all paper purchased by state agencies be recycled and allows for a 10% price preference for recycled paper. In order to qualify as recycled, paper must include either 50% recycled content, 10% of which must be post consumer, or 20% recycled content, all of which must be postconsumer. An additional 1% price preference is allowed for postconsumer materials recovered within the state.
Denmark	State procurement code mandates that, whenever it is economically and practically feasible, 50% of the dollar amount of paper purchased by the state be recycled. For high grade printing and writing paper to qualify as recycled, it must contain at least 50% recovered material, 50% of which must be postconsumer waste.

New York	State procurement conforms with specifications of President Clinton's Executive Order 12873, as amended March 28, 1996. The Executive Order is currently set at a 30% postconsumer content requirement for high speed copier paper, offset paper, forms bond, computer printout paper, carbonless paper, file folders, white wove envelopes, writing and office paper, book paper, cotton fiber paper and text and cover paper.
California	*State procurement code mandates that 25% of all fine paper purchased be recycled, which is defined as paper containing 50% postconsumer and secondary material (at least 30% postconsumer). Furthermore, the state allows a 10% price preference for recycled paper products.*
Maine	State procurement code mandates that 50% of the dollar value of paper purchased by the state be spent on recycled paper. To qualify as recycled, paper products must meet or exceed EPA's content guidelines specified in the federal Recycled Materials Advisory Notice (RMAN). Furthermore, state law allows for a 10% price preference for recycled paper.