Submission
No 122

INQUIRY INTO LONG TERM SUSTAINABILITY AND FUTURE OF THE TIMBER AND FOREST PRODUCTS INDUSTRY

Organisation: Housing Industry Association

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Portfolio Committee No. 4 – Industry
The Department of the Legislative Council
Parliament House
Macquarie St
Sydney NSW 2000

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Dear Sir/Madam

Thank you for the opportunity for the Housing Industry Association to provide a submission to the Inquiry into long term sustainability and future of the timber and forest products industry.

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year as well as small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply and retail sectors.

Contributing over $100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 400,000 sub-contractors reliant on the industry for their livelihood.

HIA exists to service the businesses it represents, advocate for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry.

About this Inquiry

In the media release by the Committee on the launch of this Inquiry it was noted that:

> 'The timber industry in New South Wales is under immense pressure. Demand for timber is high, and having adequate supply to meet demand is crucial, and the industry has been significantly impacted by bushfires and the pandemic. Given the timber industry generates more than $2 billion each year, and is a large employer in our state, it is important that we take a close look into what's happening and how we can ensure this industry is sustainable in the long term.'

HIA agrees with the sentiments expressed. The current situation in market with supply constraint, booming demand, and the resulting price rise highlights a lack of robustness and flexibility in the local timber supply chain.

With regard to the Inquiry and the Terms of Reference of the Inquiry for the residential building industry the core concerns relating to the timber supply chain include:

- Current state of the market and supply constraints
- Security of the timber supply chain to meet short, medium and long term demand for future home building
- Keeping the supply of timber for home building at a competitive price and not subject to significant market fluctuations
- That there is appropriate rigour in the timber supply chain for timber used in construction, to ensure that it does not enable sub-standard or non-conforming products from making it onto building sites
- Governments continuing to support Australia’s forestry, manufacturing and supply sector, and
- Governments supporting research and development and removing any unnecessary barriers for further uptake of new and innovative products and materials particularly in respect to modular and systems based construction.

While these issues are not specific to the Terms of Reference they are integrally linked to the purpose and nature of the Inquiry taking regard of the current and future construction demand for timber, the ability of the plantation sector to meet this demand, and any constraints in the supply chain.

Further detail on these matters is set out below.

Current state of the market

Supply constraints

Private sector investment in forestry has not kept pace with domestic demand in general. As a result, in 2019, around 20 per cent of domestic structural timber was imported.

In a typical year this isn’t a problem. It simply means that domestic prices are more variable as global demand changes.

This situation changed in 2020 when access to global markets were constrained. This occurred while the impacts of COVID-19 and bushfire events have disrupted the local supply chain. At the same time demand for timber is outstripping production capacity globally.

In NSW a major milling operator recently announced a reduction in timber production of 32% by August, as the last of the viable burnt logs are processed. These are not being replaced by fresh supply due to the loss of 40% of local timber in the bushfires.

Access to imported timber products is under pressure from global competition, increases in shipping container costs (up between 200-400%) and port and shipping constraints. Freight restrictions, costs and levies applied to log haulage are inhibiting the transfer of locally available logs between states.

Typical timber framing supply times have increased from 3 weeks to approximately 8-10 weeks.

Global demand

A boom is occurring in construction of housing around the world, spiking demand for timber globally. Across Australia we have seen a 26.9% increase in new detached construction above typical levels. Renovation work and work on detached housing is at record levels, and expected to grow over the coming quarters.

In NSW we estimate 28,250 construction starts in 2020/21, up 25% from 2018/19 and in line with the national figures.

North America in particular is competing strongly for imported timber products, including engineered wood products. Timber pricing there has increased by approximately 400% adding more than $23,000 USD to the cost of a new home. This is further driving up prices for imported timber, diverting supply away from Australia, and placing pressure on supply globally.

Price impacts on timber products

In NSW costs for engineered wood products have increased by approximately 60%.

Prices for structural framing timber locally have risen by 20% since 2020, with a further 15% rise expected in June. Suppliers are unwilling to give pricing forecasts beyond July due to the dynamic nature of the current global market.

It is anticipated the supply disruptions, high demand levels and resulting price impacts will continue for at least the next 12-18 months. This will place increasing pressure on the residential construction sector.

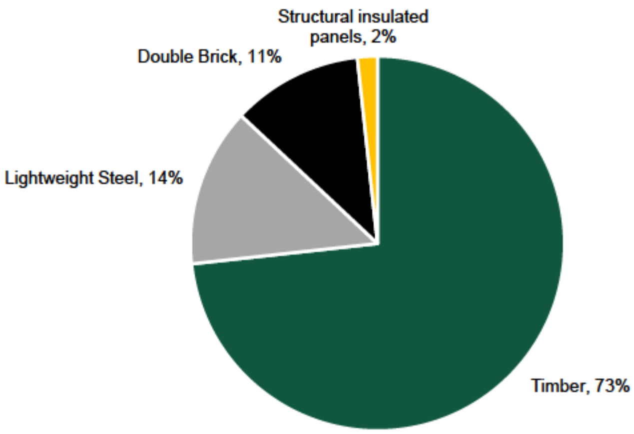
Security of the timber supply chain to meet short, medium and long term demand for future home building

Long term housing forecasts are difficult given the current environment with the COVID-19 pandemic. However, based on population growth projections and ongoing replacement of aged housing stock it is conservatively estimated that there is demand for the construction of around 170,000 new dwellings per year on average in Australia.

It is estimated that between 95,000 and 115,000 detached dwellings will be constructed each year and around 75 per cent of these are expected to use timber framing for the load bearing elements of the walls and roof. While there has been growth in the use of alternate framing materials and building systems these still represent a very small proportion of the market.

The housing industry therefore needs to have confidence that this demand can be met and that government policies will facilitate and support the forestry industry to meet this year on year demand.

Load Bearing Elements in New Detached Houses
Source: ACI



Keeping the supply of timber for home building at a competitive price and not subject to significant market fluctuations

Following on from the comments on security of the timber supply chain to meet demand, the issue of timber remaining at a competitive price for residential construction is equally important and inherently linked.

For home building having a secure supply chain is essential but so is the price of material remaining at a competitive rate and not being subject to significant fluctuations in prices that could affect project viability and selection of materials.

This is particularly relevant given the high proportion of timber used in residential construction.

Whilst pricing of materials is generally a market driven mechanism, the security of supply and long term investment, business support, energy pricing, freight and haulage pricing and regulatory impediments are all interlinked to the issue of price. Actions that can support the sector to ensure that fluctuations on price are minimised and material prices are kept at competitive levels should be a focus for all governments.

That there is appropriate rigour in the timber supply chain for timber used in construction to ensure that it does not enable sub-standard or non-conforming products from making it onto building sites

Australia has a vast forest estate of almost 132 million hectares, making it the world's 7th most forested nation. However, despite an abundance of forest resources, there are only around 7.5 million hectares of multiple-use public native forests and nearly 2 million hectares of plantations almost evenly split into hardwood and softwood. Forest plantations occupy only 0.5% per cent of the 385 million hectares of agricultural land.

Australia's plantation estate area is declining. In 2018-19, only 2,750 hectares of new softwood and 50 hectares of hardwood were planted across Australia[1]. New plantation establishment as shown in figure two has been flat lining for nearly a decade.

Furthermore, this lack of new plantings and replanting in Australia's plantation estate will lead to an expected shortfall of wood fibre over the next four decades. Without an increased supply of high quality local timber and forest products, Australia will be forced to import more potentially lower quality and sub-standard timber and fibre-based products.

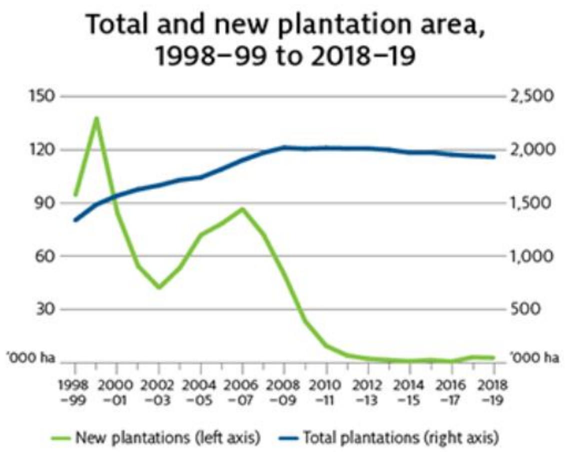


Figure 2. Source: ABARES[2]

Therefore, Government policies need to ensure that Australia has a rigorous system in place to ensure that sub-standard or non-conforming timber (products purporting to meet a specific standard but don't meet the standards they claim to meet) do not make their way into the building supply chain and building sites particularly for timber products used in structural components of buildings.

This is applicable for both for domestically and internationally sourced products but particularly internationally sourced products.

This issue of non-conforming building products entering the supply chain and appropriate controls has been the subject of a previous Senate Inquiry and recommendations arising from the report are still progressing.

[1] https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/plantation-and-log-supply
[2] https://www.agriculture.gov.au/abares/forestsaustralia/plantation-inventory-and-statistics

Governments continuing to support Australia's forestry, manufacturing and supply sector

HIA supports efforts by governments to continue to support Australian made, grown and manufactured materials. Further to this, efforts to support Australian businesses that focus on exporting products should be maintained.

Additionally policies such as that launched by the Federal Government in 2018 regarding 'Growing a better Australia: A billion trees for jobs and growth' (National Forest Industries Plan), which includes a commitment to plant one billion new commercial plantation trees are an admirable commitment and one that industry fully supports.

These new trees are vital to meet the expected future increased demand for forest products, however, equally important and detailed in other submissions to this Inquiry, is ensuring that these trees are planted in the right locations. Planting new trees too far from where they will ultimately be used can have significant impacts on price and viability based on haulage prices and other factors.

Governments supporting research and development and removing any unnecessary barriers for further uptake of new and innovative products and materials particularly in respect to modular and systems based construction

The building industry is a dynamic industry and whilst the materials used and the construction methods implemented can appear from the outside looking in to be relatively static, in the past few years the industry has been looking for new ways to streamline building processes and save time on site.

For timber products this has included the move to offsite or prefabricated wall, floor and roof frames and significant uptake and supply of engineered timbers. Recent changes for multi residential and high rise construction has also seen the use of materials such as Cross Laminated Timber (CLT) begin to enter the mainstream.

Over the next 5 years it is expected that modular, off site and systems based construction will become more common, with many of these systems utilising common building materials such as standard framing as part of the system.

These innovations in construction systems and materials rely on investment in research and development to not only bring the systems to market through the testing and analysis but also equally important is changing mindsets and perceptions to these new and innovative approaches.

Existing regulations currently place some barriers and road blocks on new and innovative materials and approaches as they have generally been written with traditional construction materials and methods in mind and can be slow to adapt and evolve.

Governments can play a big part in removing unnecessary barriers and looking at proactive rather than reactive approaches to supporting innovation in the building sector.

Recommendations from the Federal Inquiry

The Federal House of Representatives Standing Committee on Agriculture and Water Resources initiated an inquiry in June 2020. They recently published their report '*Aussie logs for Aussie jobs: inquiry into timber supply chain constraints in the Australian plantation sector*' which contained a number of recommendations for long-term improvement in the Australian timber supply chain.

The recommendations of note in the Final Report include:

- To introduce a concessional loan scheme for the establishment of new timber plantations to improve the viability of potential projects and help to drive future investment.
- That the Australian Government prioritise new carbon abatement projects which deliver co-benefits to the Australian economy beyond carbon storage, including, but not limited to, supporting local industry, creating and sustaining jobs, and generating new downstream manufacturing opportunities.
- Development of a code of conduct for the timber industry to facilitate long-term timber supply contracts between producers and processors to better support the growth of an efficient domestic processing sector, while reducing the risks in relying on export markets.

- That the Australian Government and State and Territory Governments support a significant increase in Australia's forestry research and development capabilities

While none of these recommendations provide an immediate solution to the short-term problems faced by industry in the current market, they provide a useful starting point for any proposal developed in the course of this Inquiry.

Conclusion

The Inquiry provides an important opportunity to examine current and future demand for wood, the ability of the plantation sector to meet this demand, any constraints in the supply chain reducing the plantation sector's ability to meet demand, and look at ways in which Governments can support the timber supply industry.

These matters are equally important for the residential building industry in meeting current and future housing demand and to recognise that timber is and will remain the predominate material used in housing construction.

The Housing Industry Association appreciates the opportunity to provide a submission to the Inquiry on this important matter and would be willing to participate in any resulting Committee hearings.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

David Bare
Executive Director