

3. Justification for the Project and Consequences of Not Proceeding

3.1 Need for the Project

Gunns believe there is a need for the development and operation of a pulp mill to:

- ▶ Provide downstream, value-adding processing of forestry products; and
- ▶ Commercially sustain the forest industry in Tasmania.

Within the next five years, demand for paper globally is expected to grow strongly, with the Asia Pacific region expected to be a strong contributor to this global growth. For example, China is expected to produce almost 60 million tonnes of paper and board annually by 2010.¹⁷ This will be roughly 13 times the 4.5 million tonnes Australia is expected to produce in that year.

As demand for paper rises, and as more and more paper production capacity comes on line, demand for pulp will increase, particularly in the Asia Pacific region. In 2003, Asia represented approximately 37 per cent of total world demand for BHKP.¹⁸ China, Korea and Japan were the major consumers in this region, accounting for three-quarters of total demand. Jaakko Pöyry analysis indicates the demand for market bleached hardwood Kraft pulp (BHKP) in China is forecast to grow at a rate of 8.5 per cent per annum to 2015. The rest of the Asia Pacific region, excluding Japan,¹⁹ is expected to grow at 4.5 per cent per annum (Figure 3-1).

¹⁷ ABARE, *Outlook 2005: Future Developments in the Pulp and Paper Industry*, Canberra.

¹⁸ Jaakko Pöyry internal research

¹⁹ Japan's reduced rates of economic growth in recent years have sharply decreased its expected growth in demand in this region.

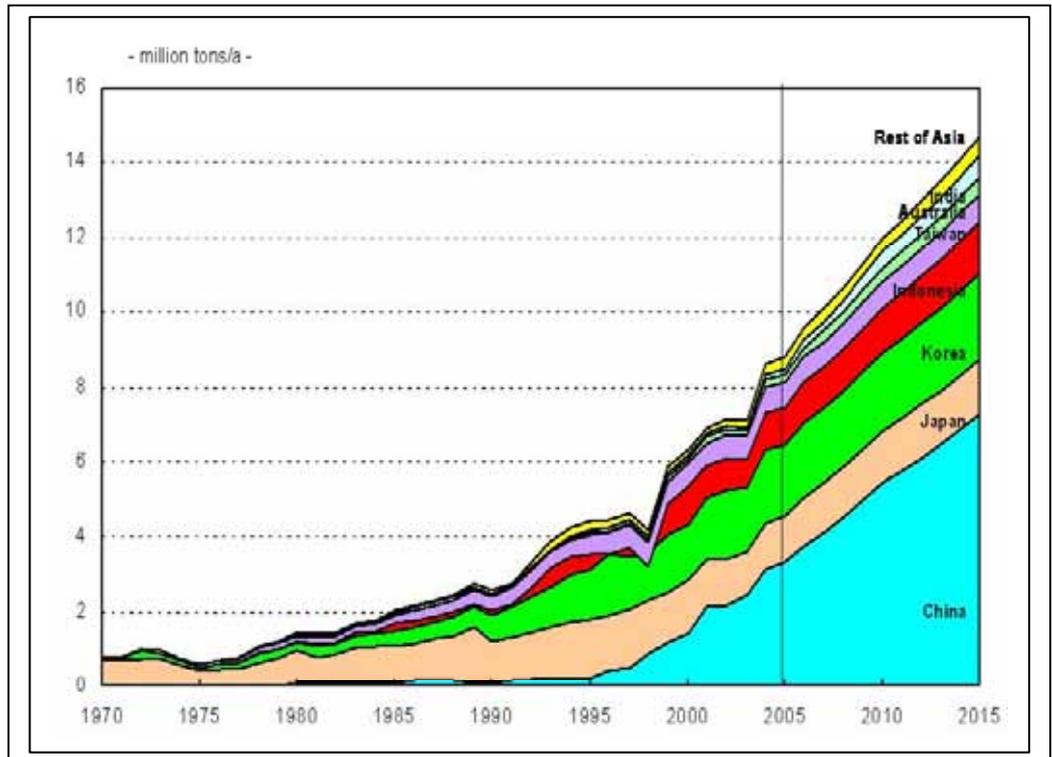


Figure 3-1 Demand For Market BHKP In Asia Pacific 1970-2015

Significantly, overall demand is projected to grow to 11 million tonnes by 2010,²⁰ which is expected to exceed installed capacity in the region. Installed capacity in the region is expected to reach 7 million tonnes by 2010 (Figure 3-2).

Competition for pulp and other wood products is expected to be strong by manufacturers within the region and outside it. Competitors to Australia in the Asia Pacific region include main suppliers from Indonesia, Brazil and North America. Large capacity expansions proposed in Brazil, Uruguay and Chile are also expected to influence global competition (Jaakko Pöyry pers com).

To meet this opportunity, Australian manufacturers will need to compete on a global scale, which means all components of the value chain must be optimised to capture the growing international market. Mill capacities need to be expanded in order to exploit the scale economies necessary for success in the global market.

²⁰ An older analysis conducted for the Department of Agriculture, Fisheries and Forestry estimated demand would grow to 8.7 million tonnes by 2010. See Margules Pöyry, 1999, *Investment Opportunities in the Australian Forest Products Industry*, Version 2, p 95.

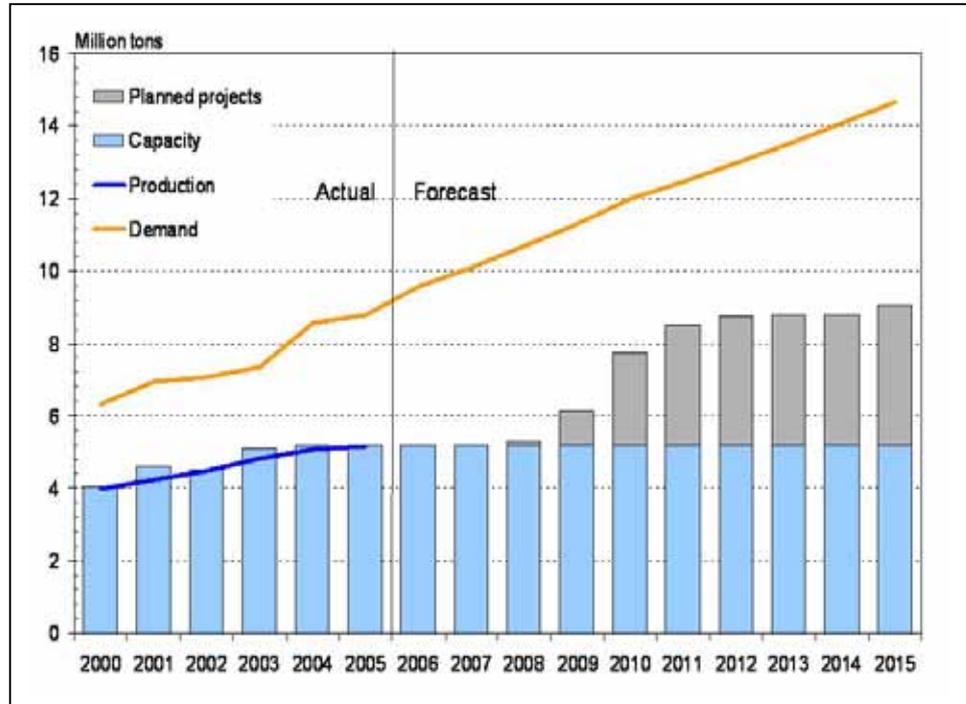


Figure 3-2 BHKP Supply/Demand Balance in Asia Pacific

A major new investment project is likely to be particularly beneficial if it builds on Tasmania's competitive advantages, in terms of resource endowments, and provides the opportunity for further development. An examination of Tasmania's pattern of exports provides some insights into existing areas of comparative advantage.

Tasmania is relatively more reliant on exports than Australia as a whole. Tasmania's exports contributed 14.5 per cent to GSP in 2002-2003.²¹ However, the composition of Tasmanian exports is also skewed towards commodities. Despite the fact that manufacturing makes a relatively high contribution to Tasmania's economy, the composition of international exports from the State tends to the lower unit value end, particularly when compared to exports from Victoria or New South Wales.²²

Value-adding and the production of more complex differentiated products are important for economic growth in a number of ways, including that they:

- ▶ increase prices secured by Tasmanian producers for goods sold, which directly increases GSP;
- ▶ result in less sensitivity to exchange rate fluctuations and price competition, than the simpler commodity product (woodchips);

²¹ ABS, 2006, Cat. No. 1384.6. The most recent data available for Australia shows that exports contribute roughly seven per cent to GDP. See ABS Cat. No. 5368.0, January 2006.

²² ABS, 2006, data available on request, International Trade database.

- ▶ involve employment of more highly skilled personnel, in both product development and manufacturing; and
- ▶ generate economy-wide spillovers through more extensive linkages between firms (suppliers, competitors), leading edge customers and research institutions.

Overall, economic modelling (Allens Consulting, 2006) shows that the pulp mill will yield substantial positive benefits to Tasmania and Australia in the form of greater economic activity and employment. Tasmania's gross State product (GSP, or the State equivalent of GDP) will be \$6.7 billion higher than otherwise in net present value terms from 2007 to 2030. Approximately 1,617 additional jobs will be sustained on average during the operating phase of the project.

Allens Consulting (2006) states the overall net impact of the pulp mill on the national economy is generally positive and that the Australian economy as a whole will be better off as a result of the development.

A summary of the pulp mill potential environmental, social and economic impacts is provided in the Triple Bottom Line chapters of Volumes 2 and 3. Conclusions are provided in Volume 4. A detailed economic assessment is presented in Volume 2 of the Draft IIS.

3.2 Consequences of the Project Not Proceeding

The alternative to establishing a pulp mill is a 'do nothing' option, that is, continue to export woodchips to international pulp mills for processing.

The do nothing option equates to foregoing social, community, environmental and economic costs and benefits associated with the pulp mill and associated infrastructure.

By not proceeding with this project, Gunns will continue to export woodchip to international clients. Currently 5 million tonnes of woodchips are exported each year for pulp processing in foreign countries from where the pulp is sold to paper mills.

The analysis contained in this Section and in the Economic Assessment within Volume 2 of the Draft IIS shows that the pulp mill will have a very substantial positive impact on Tasmania's economy. It will raise the level of investment in Tasmania, which is essential if economic growth is to be lifted and living standards improved. It will move the State's production and export profiles away from raw commodity exports and simple manufacturing to more sophisticated value-added products. It will permanently create approximately 2,000 more jobs in the Tasmanian economy (by 2030), many of them in higher value occupations. All these impacts are encapsulated in the pulp mill's projected highly positive impact on Tasmania's GSP, with a NPV of around \$6.7 billion, equivalent to around half of the State's current annual GSP.

If the project were not to occur, none of these social and economic benefits would be realised. Tasmania's employment profile would remain unchanged, as Gunns would continue to export woodchips. There would not be the stimulus provided to Tasmanian

industry and economic growth because there would not be additional activity or a change from the status quo. Tasmanians would need to look to other industries to sustain their future living standards. After a negative experience with this project and the previous decision on Wesley Vale, it would seem very unlikely that any other investor would develop a major investment proposal in this industry again. The prospects of adding value to Tasmania's greatest natural resource would therefore appear limited.

In the event that the project does not go ahead, it may well be that the present gap between living standards in Tasmania and on the mainland would again widen over time. Tasmania remains a small and open economy. Adding value to its principal natural resource, in a responsible and ecologically sustainable way, would offer a pathway to building continued economic growth. While other industries, such as tourism, will continue to develop, they do not offer such a potential for wealth creation and the ability to sustainably increase living standards. While, due to the skills of its workforce, Tasmania may have some advantages in other high value activities, it will be difficult to attract investment in many of these areas in competition with States such as Victoria and New South Wales.

Moreover, there would be no change in the volume of forest harvested. Gunns' harvesting strategy is independent of the decision to process the wood downstream.

Clearly, the success of the pulp mill project represents a significant opportunity for value-adding activity that will provide long run growth for Tasmania.