

18 August 2020

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600
(e) prebudgetsubs@treasury.gov.au



Forest industries proposals for the 2020-21 Federal Budget to underpin growth, innovation and recovery from COVID-19.

The Australian Forest Products Association (AFPA) welcomes the opportunity to submit proposals for the 2020-21 Federal Budget proposals to underpin growth, innovation and recovery from COVID-19.

We congratulate the Morrison Government on proactively seeking to protect Australians during this very difficult time. We acknowledge that our political leaders are seeking to strike the right balance between minimising the devastating effects of COVID-19 and ensuring the economy does not completely stop, which would create long term economic suffering.

Our renewable forest product industries manufacture and deliver a range of essential services and products. Our companies are regionally based, highly automated and have been proactive in implementing risk mitigation measures to minimise the risk of COVID-19 across our supply chain, and we will continue to act in accordance with the latest health advice.

We stand ready to work constructively with the Federal Government to ensure our industry can continue to supply these essential products and services to all Australia during these difficult times.

Australia's forest industries support 80,000 direct jobs across the full industry value chain with an annual economic contribution of around \$25 billion. With the right policy settings, more regional jobs and economic activity could be created, allowing our renewable forest industries to be resilient and grow.

This submission

AFPA acknowledges that the Federal government's budgetary position is extremely challenged after the necessary economic support provided during the COVID-19 pandemic. However, we also note the Government's comments that it will be vital to put in place policies and initiatives that will underpin Australia post COVID-19 recovery and grow the economy to sustain and create jobs and rebuild livelihoods.



24 Napier Close Deakin ACT 2600 • PO Box 239 Deakin West ACT 2600
Tel (02) 6285 3833 • enquiries@ausfpa.com.au • www.ausfpa.com.au



AFPA is pleased to submit the following ten (10) recommendations in response to the Federal Government's renewed invitation to provide submissions to inform the delayed 2020-21 Federal Budget. In total, the recommendations detail \$41.7 million in direct investment and an additional \$80 million earmarked in the existing Climate Solutions Fund (CSF) over the three (3) year forward estimate period.

These recommendations are targeted at proposed policies and measures to provide growth and innovation opportunities for Australia's recovery post COVID-19 and devastating bushfires recovery.

- **Enhancing new home building stimulus measures**

The housing construction sector is rightly lauded as the engine room for growth and jobs in Australia's economy. Australia's softwood timber processing industry supplies most of the renewable timber products for new houses built in Australia and a substantial portion of multi-unit and commercial construction. COVID-19 restrictions are having a significant negative impact on consumer confidence, new house demand and the associated timber products supply chain.

A recent survey of AFPA's timber processing companies clearly indicated that COVID-19 has affected consumer confidence and increased market uncertainty with forecasts of a drop in new house construction and associated timber product demand.

Any significant drop in demand will be devastating for regional Australia where our timber processing facilities are located. As timber processing facilities begin to reduce production in response to demand dropping, it will mean fewer shifts, regional job losses and a flow on downturn in spending on services in vital regional towns across Australia where our renewable forest product industries underpin the regional economic activity and jobs.

AFPA congratulates the Morrison Government on its timely announcement of the [HomeBuilder](#) program, which has seen confidence in the new home building market improve. Some State governments are also following with supportive stimulus measures aimed at bolstering the HomeBuilder impact. These positive impacts can be built on by further policy refinements and direct investment.

Recommendation 1: The Government to:

- a) further refine HomeBuilder by increasing the house price cap to reflect outer-metro city new home prices and extend the program for a longer period, and**
- b) directly invest in affordable housing, public housing, and defence housing.**

- **Request for \$1 million of Government funding for a feasibility study into a new 'Australian Institute for Forest Products Innovation'.**

There is an opportunity to further add to the Government's *'One Billion trees for jobs and growth'* Plan in the area of research and development (R&D) in a manner which will assist the Government in growing the agriculture, fisheries and forestry sector to \$100 billion by 2030.

The CSIRO and State Government Forest Agencies have largely abandoned in-house forest industries R&D. For some years now the decline has been in effect and is now starting to be starkly felt. In everything from bio-materials to gaining greater productivity from our native and plantation forests, to supporting social purpose, to creating breakthrough higher value products from woody residues, the R&D which would open significant innovation, upside potential and generate new jobs is no longer happening on our shores to the extent it should.

Funding of R&D investment has fallen from around \$104 million a decade ago to less than \$20 million today. Over the same period the number of researchers, technical and support staff working full time in forest product industries R&D has also plummeted from more than 700 to just a few dozen.

The Government is to be congratulated for starting to grapple with this crisis over the last several years through the funding of the *'National Institute for Forest Products Innovation'* (NIFPI) centres, in Mt Gambier, Launceston and now Gippsland. Twenty-nine projects were funded across the Mt Gambier and Launceston centres (none have been allocated yet in the newly announced Gippsland centre). The \$2 million in Commonwealth funding matched by \$2 million in State funding generated some \$17 million in R&D by leveraging industry contributions. This success illustrates the demand which exists in Australia.

Forest & Wood Products Australia (FWPA) focuses on funding research but does not employ researchers in house and has certainly noticed the serious decline in researcher numbers to undertake the necessary R&D.

Our competitor forestry nations such as New Zealand and Canada have established forest value chain R&D agencies which are co-funded by Government and industry. They are delivering large breakthroughs for those countries, making their industries more efficient and more profitable. This is essential in a globally traded product such as wood derivative materials to secure the future of forest product industry workforces. In New Zealand, the forest research centre is called SCION, based in Rotorua with an annual budget of \$52.5 million. In Canada, the equivalent body is FPInnovations, housed in several centres in different provinces and with an annual budget of \$72.5 million.

AFPA proposes:

1. Australia needs a research agency of a comparative scale, potentially building on the existing Launceston centre; and
2. The Federal Government should support a further examination of this prospect through the funding of a feasibility study (an initial investment of \$1 million), which would also draw on the learnings from the NIFPI centres, review international examples, and engage stakeholders.

This proposal is supported by the 2019 ACIL ALLEN report, commissioned by the Research and Development Corporations, *'Agriculture a \$100B sector by 2030?'*. This report explains the current value of the sector by commodity (\$67 billion) and postulates four major potential drivers for growth to enable the meeting of the \$100 billion target. Driver 2.2 in the Report ACIL ALLEN says is "Investing in off-farm R&D – creating value up the chain" The Report says: *"Developing new uses for products helps to diversify the agricultural sector and allows the sector to better withstand uncertainty and a changing environment. Value add is a significant contributor to the agriculture and food industry."* (p.15)

FWPA recently commissioned a [meta-analysis of benefit-cost assessments](#) for Australian forest and wood products R&D investments over the past 15 years. This report found that the average benefit-cost ratio for these assessments to be 5 to 1. Investments in the wood processing and manufacturing area of the forest industry performed even better, with an average benefit-cost ratio of 15 to 1.

A feasibility study is the first step to ensuring that the proposed new 'Australian Institute for Forest Products Innovation' would deliver against policy and industry visions for the future. Such an announcement would be welcomed by the whole forest industry value chain.

Recommendation 2: The Government commit \$1 million for a feasibility study into a new 'Australian Institute for Forest Products Innovation'.

- **Removal of the cap on voluntary matching forest industry R&D funding**

The forest and wood products sector is the only agricultural sector with an artificial cap that limits access to the full 0.5% of Gross Value of Production (GVP) in voluntary matching R&D funding. The cap is specified in the *Forestry Marketing and Research and Development Services Amendment Regulation (2015)*.

Industry has demonstrated its willingness to support R&D through the fact that the matching funding ceiling has been quickly reached in each year since it has been applied.

Recommendation 3: The Government to change the regulation and remove the cap on voluntary matching forest industry R&D funding.

- **Fund the remaining two Regional Forest Industry Hubs (at Eden NSW and NT)**

In 2019, the Federal Government announced that nine Regional Forest Industry Hubs (Hubs) would be established. Hubs are existing aggregations of plantation and managed native forest as well as associated wood fibre processing and manufacturing facilities.

The Government's approach of funding the nine initial Hubs has neglected to include two additional identified key regional forest industry hubs (at Eden NSW and the NT). Ensuring all major forestry regions are included in the Hubs rollout is vital to ensure that the plantation expansion is distributed in all States and the Northern Territory, and that the additional timber will therefore support downstream businesses and grow jobs in all those areas.

Recommendation 4: The Government commit an additional \$2 million to fund the remaining two Regional Forest Industry Hubs (at Eden NSW and the NT).

- **Government to invest in a \$5 million community education program on Australia's sustainable native forestry industry to raise awareness about where our timber comes from and how our multiple-use forests are managed.**

Australia's renewable forest industries lead the world for sustainability, innovation, and quality products. However, there is a lack of community understanding about the sustainability of Australia's forest industries, and the essential role they play in supplying the timber and paper products Australians love, and the 80,000 direct jobs they support across Australia.

Australia is the seventh most forested country in the world, with 132 million hectares of natural forest. Less than 0.06% of that is harvested for timber each year. To put that in context, that is the equivalent of just 6 trees out of every 10,000, and the forest is then regenerated and regrown after harvest by law.

There are a lot of misconceptions about how our modern forest industries operate, particularly around the sustainable management of the native forest estate. AFPA and the forest industries have been working positively with the Department of Agriculture's forestry division and our RDC, Forest & Wood Products Australia (FWPA), on developing the messaging to better convey this message. However, without the level of resourcing to communicate these messages more broadly, we will not be able to raise community awareness about our sustainable forest industries.

We are seeking a commitment of \$5 million to support Australia's forest industries to develop and disseminate a national community education campaign about the environmental benefits of Australia's sustainable native forest industries and the vital role they play in our communities.

Recommendation 5: The Government commit \$5 million over 2 years to support industry to deliver a national community education campaign to raise public understanding about Australia's sustainable native forest industries.

- **Earmark \$80 million specifically for new ERF projects with multiple benefits, such as forest plantation and farm forestry projects**

The need for more forest plantations - Australia's forest plantations are a renewable and sustainable resource that can store carbon dioxide (CO₂) in standing timber and in wood, paper and bioproducts and for many years. New plantations support regional employment, economic activity, environmental and social outcomes.

Forest plantations provide more than 80% of the wood fibre and timber for our national forest product industries. Unfortunately, investment in new plantations in Australia has effectively been at a standstill for almost a decade and the gap between supply and demand is growing all the time.

Valuing the carbon stored in forest plantations via the Carbon Farming Initiative (CFI) and through the Climate Solutions Fund (CST), previously the Emissions Reduction Fund (ERF), is a way to kick start investment in new plantations in Australia. New forest plantations would store carbon for the Government (to offset against international emissions reduction targets) and provide urgently needed timber resources for our renewable forest industries.

Late in 2017, the Federal Minister for the Environment and Energy approved a new [Plantation Forestry method](#). Eligible participants are now able to apply to the Clean Energy Regulator (CER) to register an CSF project. The method credits abatement by storing carbon from the atmosphere in trees. This is done by establishing new forest plantations or converting short-rotation forest plantations to long-rotation forest plantations.

Further, the Climate Change Authority's (CCA) April 2018 [report](#) to the Government, *Reaping the Rewards: Improving Farm Profitability, Reducing Emissions and Conserving Natural Capital*, recommended the Federal Government incentivise carbon abatement projects on the land that provide additional benefits such as biodiversity, economic and productivity gains. Expanding Australia's forest plantation estate and incentivising farm forestry projects are prime examples of carbon storage projects that deliver multiple benefits.

There are many environmental and soil conservation benefits of new trees in Australia's landscape. By careful planning, new trees can assist with reducing salinity; improving water quality; enhancing habitat restoration/revegetation (e.g. mine sites); continual improvement of soil management; and waste-water management.

The CCA report recognised the additional environmental and productivity benefits that trees on farms can provide, and noted that these benefits are not being realised due to cost barriers (which could be addressed through government policy):

Some activities on the land that deliver multiple benefits require upfront capital. For example, planting native trees as a windbreak requires upfront spending on plantings but can increase crop production and provide shelter for stock, delivering improved financial returns over many years. A lack of capital for such investment may be one reason why farm level investment in multiple benefits is not more widespread.

A focus on co-benefits in emissions reduction policies is also being advocated by [Climate Proofing Australia \(CPA\)](#), of which AFPA is one of the founding members. CPA is an industry and conservation led network of organisations committed to advancing the role of farming, forestry, and conservation in meeting Australia's emissions targets. This cross-sector collaboration seeks to work together in an unprecedented manner to manage land in ways that reduce the impact of climate change on people, nature, and economies. Members of the alliance are Greening Australia, the Australian Forest Products Association, the Red Meat Advisory Council, Farmers for Climate Action, and the National Farmer's Federation.

Recommendation 6: The Government commit \$80 million of CSF funds to specifically support new CSF projects that deliver multiple social, economic, and environmental benefits, which forest plantation and farm forestry projects are prime examples.

- **Government to invest in waste management and recycling projects**

Australia's recovery and recycling of paper and paperboard has increased dramatically over the last ten to fifteen years. Australia's strong position has been made possible because of increasing recovery rates, both from kerbside collections and from commercial and industrial sources and because of significant industry investment in paper recycling recovery.

As published in AFPA's 2018 National Pulp and Paper Sustainability report, Australia's implied recycling rate for all paper and paperboard in 2017-18 was almost 70%, with this figure including both wastepaper exports to be recycled and locally recycled material. During this period, approximately 1.7 million tonnes of recovered paper was locally utilised, and approximately 1.3 million tonnes of recovered paper was exported to overseas recycling facilities.

On 9 August 2019, the Council of Australian Governments proposed a ban on the export of wastepaper amongst other waste exports. It is proposed that this ban be in place by 30 June 2022. This announcement will require the recovered paper that is currently exported to overseas waste recycling facilities to remain in Australia.

To avoid adding to Australian landfills, internal markets and products now need to be developed to ensure that there will be a use for the currently exported resource in Australia.

Bioproducts are any products - fuels, energy, chemicals, raw materials - made from renewable biological resources (such as recovered paper). Biomass can be turned into bioenergy, biofuels, biomaterials, and the basic components of chemical processes. Bioproducts are becoming increasingly important to Pulp & Paper industries across the world and Australia's industry is well placed to grasp significant opportunities in the biofuture, as well as help Australia respond to the waste export ban.

Recommendation 7: The Government commit \$10 million to establish a National Biofutures Industry Development Fund and \$10 million to establish a National Biofutures Commercialisation Fund, to underpin early stage commercialisation of leading-edge bio-based technologies.

Recommendation 8: The Government commit \$10 million over 4 years to add a 'Bioproducts Innovation Hub' to the existing Industry Growth Centres initiative to focus on research and development, technology transfer and bridging the investment and industry deployment gap for bioproducts in Australia.

- **Government to invest in a dedicated trade envoy for timber exports in SE Asia.**

Australia is a net importer of wood products, with an annual trade deficit of \$2 billion. Nonetheless, exports remain a vital part of our forest industries and are an essential part of the value chain that support our domestic wood and paper manufacturing sectors.

SE Asian demand for Australia's sustainable forest products is at record levels, particularly to China and Japan. Exports from Australia include finished wood and paper products, raw wood fibre and recycled wood fibre and paper. Conversely imports to Australia are predominately highly processed or manufactured wood and paper products.

By value, exports to China accounted for 49% of Australia's total wood products exports, 62% of total woodchip exports and 92% of total roundwood exports in 2018-19. Japan was Australia's second-largest wood products export destination in 2018-19, with \$537 million of total exports (up 5.2% from \$510 million in 2017-18).

By value, wood products exports to Japan consisted almost entirely of woodchips (96%) and accounted for 14% of Australia's total wood products export value and 33% of total woodchip export value in 2018-19.

Our industry works hard to maintain market access in these highly competitive markets, and in the past two years AFPA has led industry delegations to Japan with the support of the Department of Agriculture. In October 2019, we undertook a series of meetings and events in Tokyo for which Assistant Minister for Forestry and Fisheries, Senator Jonathon Duniam, accompanied our delegation.

While these have been valuable exercises, our industry would benefit considerably by having a dedicated trade officer in either Tokyo or Beijing to provide ongoing support to our industry in these vital export markets, to support a more strategic approach to our market access activities.

Recommendation 9: Allocate a dedicated Department of Agriculture, Water, and the Environment (DAWE) trade officer in Asia to assist Australian forest industries with market access and opening new export opportunities in the region.

- **Educating school children about our renewable forest industries**

This proposed program aims to increase primary and secondary students' understanding of sustainable forestry, the uses of wood in all our lives, and the breadth and depth of careers in the sector.

For the sector to grow and prosper, there is an urgent need to do more outreach with the community to support the industry's social purpose. This is partially addressed by FWPA's funded campaign 'Wood. The Ultimate Renewable TM', based on extensive industry and consumer research.

Recognition of the need, and potential funding, for a Forests to timber program to be conducted in schools was detailed in an election commitment from the then-Assistant Minister for Agriculture and Water Resources, Senator Richard Colbeck. Subsequently, support for this election commitment has been reconfirmed by the Assistant Minister for Forestry and Fisheries, Senator Jonathon Duniam, who has stated in recent correspondence to the industry that he welcomes the opportunity to work with industry to develop a further program proposal. We welcome the Government's recognition of support.

Our industry wants to bring school students out into managed forests and plantations, and conversely bring our industry and people into classrooms. This strategically coordinated and grassroots initiative will be able to reach every jurisdiction under an industry consortium approach and is entirely new for our sector. This proposal can be a generational change that equips industry far better to grapple with the changing and often challenging nature of social interactions, and the expectations of the forestry industry and the wider community.

Current industry capacity and resources to provide educational activities and events at a national level is ad hoc, and in many places non-existent. This program will lift capacity substantially for a relatively modest investment which would attract industry funds, including in-kind support.

The Forests to Timber School Program proposal is supported by peak State forest industry associations, who would deliver the program across Australia.

Recommendation 10: The Government commit \$3.7 million funding for a three-year Forests to Timber School Program.

Thank you for accepting this submission. If you have any further queries on this submission, please contact AFPA on (02) 6285 3833.