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HOUSE SELECT COMMITTEE ON REGIONAL AUSTRALIA

AFPA response to written questions on notice

1. In your submission (p.5), you mention that existing Carbon Farming Initiative rules effectively exclude new forestry projects from participating in the Emissions Reduction Fund.

a. How would a change to these rules help regional Australia?

Numerous studies show the need for many new plantation trees over the next decade to meet Australia's demand for wood¹. In response to this, the Federal Government has announced a plan to plant one billion trees as part of their [National Forest Industries Plan: 'Growing a Better Australia – A billion trees for jobs and growth'](#).

There is currently a \$2 billion trade deficit in timber which results in the importation of large volumes of timber. Australia is currently importing more than 918,000 cubic meters a year of sawn softwood (the equivalent of 76,500 new house frames)². This is increasing construction costs and will only worsen as our population expands and our cities grow. There is a growing global demand for renewable timber, paper, cardboard and bioproducts to replace those existing products derived from fossil fuels.

To meet both the Government's target of 1 billion new plantation trees and the market shortfall, industry estimates that an additional 400,000 hectares of production trees, is urgently required to simply keep pace. We believe 300,000 hectares of new plantations and 100,000 hectares of new farm forestry plantings at the modest rate of 40,000 hectares per year for ten years will achieve this target. According to ABARES there is 385 million hectares of agricultural land in Australia. Plantations presently occupy just 1.9 million hectares.

One of the opportunities to help get the one billion trees in the ground is an adjustment to two of the Emissions Reduction Fund (ERF) methodologies that apply to for-harvest forest plantations, the new [ERF Plantation Forestry method](#) and the existing [ERF Farm Forestry method](#).

Even with the approved ERF plantation forestry method, potential new forest plantation projects are excluded from consideration as an eligible offset project due to the existing 600mm rainfall zone restriction detailed in the [Carbon Credits \(Carbon Farming Initiative\) Regulations 2011 \(CFI Regulations\)](#) and the 400mm rainfall constraints in the ERF Farm Forestry Method.

¹ Australian Forest Products Association, 2018, Towards a National Forest Industries Plan – Key Industry Asks, available at ausfpa.com.au

² <https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/forest-wood-products-statistics>

AFPA and the forest industry have continued to advocate since 2011 that these restrictions would constrain any new plantation investment, which it has.

Removal of these rainfall restrictions in both methods will increase the opportunity for plantation companies and farmers to establish new plantations in regional Australia. A recent CFI regulation amendment has partially addressed the issue with the ERF Forestry method but more can be done on this issue.

Our forest industries can play a significant role in reducing emissions, transitioning to a carbon constrained future, and assisting the Government achieve it' – while having a positive impact on regional Australia jobs, communities and economic growth. As well as this, these proposed amendments will help the Government reach its one billion trees target.

AFPA has been active in promoting the many environmental and soil conservation benefits of sustainable forestry practices on farms and in regional water catchments. The integration of sustainable forestry practices can take many forms, including timber belts, plantations, wide-spaced tree plantings and the sustainable management of new and existing stands of native vegetation and regrowth, including indigenous forest management.

By careful planning and location in the regional landscape, these sustainable practices can assist with:

- reducing salinity
- improving water quality
- enhancing habitat restoration/revegetation (e.g. mine sites)
- continual improvement of soil management
- waste-water management

Incorporating commercial tree planting and forestry activities into farming systems can also:

- provide farm income diversification (e.g. renewable timber products)
- improve agricultural productivity enhance carbon sequestration and lower net carbon emissions
- generate soil conservation and water quality benefits

Furthermore, carbon storage in forest plantations has helped Australia meet its greenhouse emissions reduction goals. Converting marginal land to forest from 1990 has removed over seven million tonnes of carbon dioxide from the atmosphere (Australian Government, 2016).

2. How do you recommend that research and development in forestry be funded?

In comparison to other countries Australia has fallen far behind in its investment in research and development (R&D). Funding of R&D investment has fallen from around \$104 million in 2008 to less than \$20 million in 2019 and associated with this decrease has been a decline in the number of researchers, technical and support staff undertaking this effort from 732 in 2008 to 70 in 2019, but some say as low as 30.

Investment in forest industries R&D has the potential to boost productivity by at least 20% and drive employment growth. AFPA analysis, based on forest industry workforce data and conservatively applied

multipliers, suggest that Australia is well positioned to take a significant role in a growing global market for timber, bioenergy, fibre and cellulose based biomaterials.

AFPA appreciates the Government's ongoing efforts to address this R&D capacity issue over the last several years through the funding of the small 'National Institute for Forest Products Innovation' (NIFPI) centres, in Mt Gambier and Launceston. This funding was committed entirely within an eight-month period and it will not help to build on R&D capacity nor is it a long-term solution to the R&D crisis facing industry.

Our competitor forestry nations such as New Zealand (SCION with a budget of \$52.5 million pa) and Canada (FP Innovations with a budget of \$72.5 million pa) 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 forest industries more efficient and more profitable. This is essential in a globally traded product such as wood and wood derivative materials to secure the future of their forest product industry workforces.

AFPA is developing a proposal for the need to invest in a forest industries R&D centre of a comparative scale in Australia. This suggestion is supported by the recent ACIL ALLEN report commissioned by R&D Corporations in March 2019 called '[Agriculture a \\$100B sector by 2030?](#)'. The 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.

Under Driver 2.2 ACIL ALLEN says 'Investing in off-farm R&D – creating value up the chain'. Further stating that '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.' (see page 15).

A significant investment in R&D will enable our renewable forest industries to drive regional innovation, growth and jobs and assist the Government achieve its goal of \$100 billion by 2030.

The forest industry needs a nationally organised, well-funded, future-focused, research and development (R&D) organisation of sufficient scale to grasp the opportunities of the environmentally focused 21st century and drive the Australian forest products industry a level competitive with other countries with strong forest industries.

A research facility co-funded by Government and Industry such as this would be able to focus on key areas of competitive strength and accelerate the transition of the sector into a smarter, higher value focused industry. It would deliver on the national innovation agenda and importantly link the agribusiness and manufacturing parts of the supply chain via tree growing and forest management through to timber processing, wood fibre recovery for new markets and advanced manufacturing.

3. Could you elaborate on some of the regulations which hinder the growth of your industry?

CFI Rule and Farm Forestry method

This regulatory barrier has been discussed in the response to question 1(a).

Removal of the artificial cap on voluntary matching funding for industry R&D funds

The forest and wood products sector is the only agricultural sector with an artificial cap applying to voluntary industry funding that limits access to the full 0.5% of Gross Value of Production (GVP) in matching funding.

There is potential to increase total available funds for RD&E activities to \$26 million (half industry funds, half matched) with an increase in industry contribution and agreement by the Australian Government to remove or raise the current \$1.659 million cap. Without the regulated cap, the matching funds available from the Australian Government would be \$13 million, based on the 2018/19 GVP of \$2.656 billion.

Renewable heat

Australian forest products manufacturers continue to face increasing electricity and gas energy costs, threatening regional jobs and economic activity.

Energy is a far broader term than just electricity, it also includes thermal (heat) such as steam used predominately in large industrial processes. The Federal Government's Large-Scale Renewable Energy Target (LRET) has only recognised the renewable energy benefits from electrical energy not renewable heat – which has restricted uptake of new renewable heat generation/conversion projects. At present, heat is predominantly provided by gas combustion with coal the second biggest source. There are renewable options for all current industrial uses of process heat.

While generation of renewable heat goes unrecognised, a significant renewable energy opportunity continues to be missed. Inclusion of renewable heat with the right incentives under the Emissions Reduction Fund, or in any carbon policy mechanism, would be a major trigger for new investment.

Antidumping System

Australia must maintain a level playing field in global markets for our major commodity products, including agricultural and forest products, to counter the threats from predatory pricing and dumping. While recent reform of anti-dumping and countervailing policies have made some progress, additional measures and effective implementation of the antidumping system is needed to achieve fairness for domestic producers, including information disclosure, compliance and corrective measures. Better monitoring and public disclosure of trade data is needed in addition to quicker rulings, given the significant lags in decisions and sustained damage that can be suffered by injured parties.

Local and State Government regulatory processes

As forest, wood and paper product industries have a significant regional footprint, an effective and integrated relationship between State and local Governments is essential. Unfortunately, State and local government approval and regulatory processes are often inconsistent or in conflict, complicating forest management and holding back investment in the sector. Better coordination of State and local government approval and regulatory processes is needed to ensure the regulatory and operating environment is effective and efficient.

Regulatory framework for agricultural and veterinary chemicals use

While on a smaller scale relative to other agricultural industries, the plantation forest industry relies on the use of some chemicals to maintain and improve its productivity and competitiveness, within appropriate environmental safeguards. The regulatory framework for agricultural and veterinary chemicals use is an area of environmental regulation where significant improvements in efficiency and effectiveness can be made.

An example is minor-use permits. Minor-use permits are of major importance to the forest industry, due to its relatively small chemical use. The continued availability of minor-use permits coupled with an effective and streamlined minor-use permit approval process is essential. Further reform of the process for issuing minor-use permits is needed to ensure that industries reliant on these permits are equitably considered in the regulatory framework.

Transport regulation

There is a very significant agricultural products haulage task (including forest products) that is occurring every day in Australia. There are both infrastructure and regulatory bottlenecks that restrict the efficient performance of this task. As an example, forest product haulage industry is having difficulties introducing safer and more efficient haulage configurations onto regional roads, resulting in missed opportunities to obtain greater efficiencies, increase safety outcomes, reduce the number of truck movements due to load maximisation, and reduce costs.

An inter-governmental taskforce (Federal and State) is required to identify regulatory bottlenecks and engage with relevant local government and industry to identify, prioritise and then fast-track the necessary solutions (e.g. relevant gazettal's) to address these key bottlenecks.

Working visas for remote timber mills

Sections of the forest industry face the issue of the ineligibility of timber processing activities to be a specified activity under the Working Holiday (417) and Work Holiday (462) schemes was raised. We appreciate that these schemes are designed to assist with acute regional labour shortages and not as a substitute for long-term domestic workers.

The exclusion of forestry processing activities discriminates against the timber industry relative to other agricultural sectors where a number of post-harvest activities such as fruit packing and manufacturing dairy produce are eligible. This is having a direct and ongoing impact on timber milling activities in several regions in Australia, and Far North Queensland in particular, where it is difficult to attract and retain year-round workers.

Reforms to secondary boycott law (?)

Reforms are needed to the Competition and Consumer Act 2010, to prevent environmental and other activists from targeting Australian companies who provide services and work for other businesses involved in forestry, resource and other primary industries.

Undertaking simple reform of Section 45DD Competition and Consumer Act 2010 could help prevent forest industry businesses from being targeted by environmental activists. The forest industry welcomes robust policy debate and peaceful, lawful protests but when protest actions are hurting innocent Australian businesses.

4. *Your submission notes that the demand for forestry products has never been higher (p.5).*

a. *What is driving this demand?*

Over the past ten years, Australia's demand for forest products has outpaced population growth³. Demand is being driven by a number of factors, including population growth and changes in consumer sentiment as they move towards more environmentally friendly renewable products, and

Globally, rising incomes and changes in income distribution are major factors affecting demand for forest products. As reported by the Food and Agriculture Organisation, with rising incomes, demand for forest products increases, especially for processed items (e.g. panel products, furniture, printing and writing paper, etc.)⁴.

Australia's trade in wood products has grown strongly since 2012–13. The value of both exports and imports reached record levels in 2018–19 and total merchandise trade (exports plus imports) reached a record \$9.9 billion.

Australia is a net importer of wood products in value terms and this is reflected in the types of products imported and exported. Australia tends to import lower volumes of more processed and higher value wood products to supplement domestic production and meet domestic demand, particularly for construction applications.

By contrast, Australia tends to export higher volumes of less processed and lower value wood products. Factors that influence Australia's wood products markets overseas include international and country-specific economic drivers, such as housing construction (in response to factors such as population growth), income and preferences. Other drivers include production and transport costs, exchange rates, comparative prices of products from competing countries and volumes of supply.

5. *What is the estimated impact of the recent bushfires on the forestry industry?*

Forest industries in Queensland, NSW, Victoria, and South Australia have been drastically impacted by the loss of forest plantations and damage to managed native forests in the recent catastrophic bushfires. Currently a massive bushfire recovery harvesting operation is occurring to recover as many of the burnt trees for processing into renewable timber and paper products as possible - within environmental, safety and market constraints - before they deteriorate and become unusable. The bushfires have also wrought unprecedented damage on the associated forest industries in those impacted regions, which will create enormous timber supply pressures in the medium and long term for forest plantation forest industries.

Up to 40% of the softwood plantations in the South West Slopes and Bombala regions of NSW were fire-affected, which will directly impact the region's biggest employer, Visy, major softwood sawmills that produce structural timber for housing (AKD, Hyne and Dongwha), smaller sawmills and plymills, private plantation companies, and harvest and haulage contractors.

^{3 3} <https://www.agriculture.gov.au/abares/research-topics/forests/forest-economics/forest-wood-products-statistics>, <https://www.abs.gov.au/>

⁴ <http://www.fao.org/3/y4252e/y4252e08.htm>

Kangaroo Island Plantation Timbers has reported that about 95% of the hardwood and softwood plantations have been fire-affected on Kangaroo Island in South Australia.

Significant losses to hardwood and softwood plantations have also occurred in North East Victoria, North East NSW, South East Queensland, North East Tasmania and the Adelaide Hills.

Meanwhile, in the sustainably managed native estate, around 60 per cent of the areas zoned for timber production in the NSW native forest estate were affected by fires since November along the North and South Coast. The multiple-use native forests of East Gippsland have also been heavily impacted.

Since the commencement of salvage of timber operations from affected forests and plantations harvest and haulage contractors have been required to travel long distances from their homes and in some cases from their States to assist. Many of the costs associated with travel, temporary relocation, including accommodation have been completely born by the contractor. In some cases there were other additional costs paid to the contractor by forest growers for example contractor rates have been adjusted for light loads and extra distances however the grower is bearing the cost.

In addition, increased costs from salvage timber operations are significant. Hauling lighter weight from drier burnt timber over time has a range of cost and safety implications with an expected 50% increase in costs. Similarly, harvesting operations have approximately a 30% increase in costs associated with mechanical wear and tear from processing burnt logs.

Additionally, processing burnt timber has been occurring for up to 5 months incurring increased costs across the supply chain from growers, contractors and processors due to burnt material, charcoal, different moisture gradients within each log and reduced recovery.

a. Has it affected demand for forestry products?

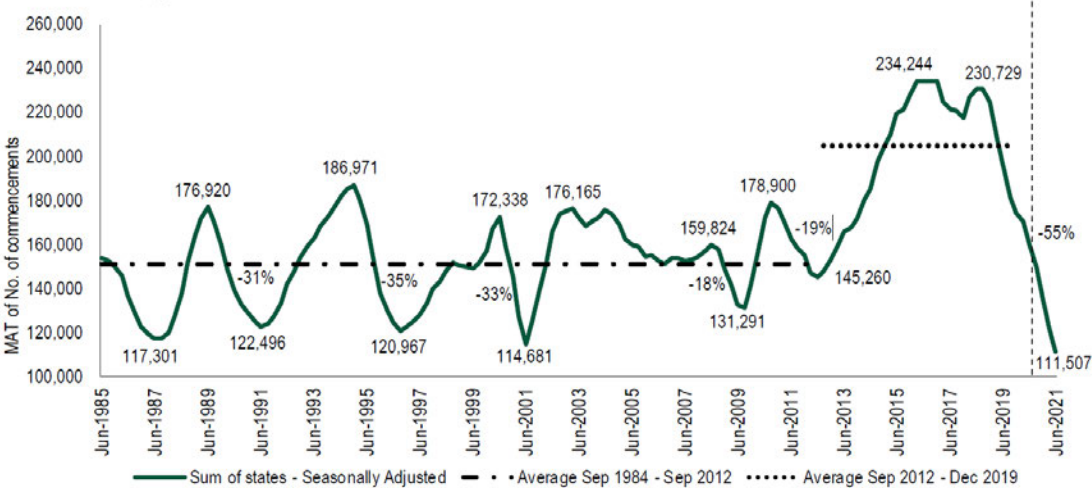
Immediate short-term impacts to supply and demand for forest industry products as a result of the recent bushfires have been minimal, however the medium- and long-term supply effects will be substantial. The losses incurred within the forest estate from the fires has decreased the availability of future resources, which will impact the capacity for the industry to meet future demand.

Covid-19 however has drastically impacted demand for forest industry products. The structural softwood sector of the is expecting a steep drop in demand for new homes and associated sawn timber products over the next 6-12 months. The Housing Industry Association's has reported in its National and State Outlooks (figure 1) that:

"New forecasts released today say new home building will fall by almost 50 per cent, putting half a million jobs at risk over the next year. If this transpires, the commencement of new homes will have fallen nearly 43 per cent from last year, to next."

Dwelling Commencements / HIA Forecasts - Australia

Source: ABS 8752 Qtr, HIA



Source: HIA's National and State Outlooks