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Forest industries proposals for the 2021-22 Federal Budget to underpin growth, innovation, and continued recovery from COVID-19.

The Australian Forest Products Association (AFPA) welcomes the opportunity to submit proposals for the 2021-22 Federal Budget to underpin growth, innovation, and recovery from COVID-19.

AFPA congratulates the Morrison Government on its ongoing actions to protect Australians during Australia's recovery from COVID-19. Our renewable forest products industry stands ready to work with the Federal Government to ensure we can continue to supply our essential products and services across Australia.

Australia's forest industries support 80,000 direct jobs across the full industry value chain with an annual economic contribution of around \$24 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 remains challenged after the necessary economic support provided during COVID-19. 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.

Australia's forest industries are still recovering from the devastating impact of the 2019-20 Black Summer bushfires. AFPA acknowledges the significant support from the Federal Government to affected forest industry businesses to assist with the recovery effort, which will take decades. Meanwhile, the industry is also grappling with the immediate challenges



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arising from China's suspension of log exports from Australia. Some of the proposals in this submission are aimed at helping mitigate the significant impact of this trade disruption.

AFPA is pleased to submit the following recommendations in response to the Federal Government's invitation to provide submissions to inform the 2021-22 Federal Budget. These recommendations are targeted at proposed policies and measures to provide domestic industry growth and innovation opportunities.

- **Request for \$100 million of Government funding over 4 years for a new 'National 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.

Over the past decade the CSIRO and State Government forest agencies have largely abandoned in-house forest industries R&D, and the impact of this decline is now being 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.

Annual funding of R&D investment in Australia 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 in recent 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 commissioned yet in the newly announced Gippsland centre). The \$2 million in Commonwealth funding matched by \$2 million in State funding for the Launceston and Mt Gambier NIFPI centres 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 that Australia needs a research agency of a comparative scale, building on the existing Launceston centre. Proposed Federal government support of \$100 million over four years would leverage matching forest product industry funds to establish a new \$200 million NIFPI centre.

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 postulates four major potential drivers for growth to enable the meeting of the \$100 billion target. Driver 2.2 in the Report, "Investing in off-farm R&D – creating value up the chain", 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.

Recommendation: The Government commit \$100 million for a new 'Australian Institute for Forest Products Innovation'.

- **Request for Government support for our timber product exporters and domestic manufacturing sector to mitigate impact of China's suspension of Australian log exports.**

Overview

In recent months China has formally suspended log exports from Australia, citing phytosanitary concerns, with no indication of when trade may resume.

It is important to recognise that the Australian log export market is largely distinct to the domestic log processing sector, and the resource is not interchangeable. Every tree that is harvested is made up of a mix of higher quality sawlog, lower quality sawlog, pulplog, and woody residues. All these need a market (either domestically or via export) for the industry to operate. Especially in the lower quality products, there is insufficient scale in plants in Australia to process the materials which forest operations generate.

Generally, our sawmills are either not optimised to process this lower grade material, or not able to handle the volumes. Of the sawlog intended for export to China, some of this could

be used by sawmills within economic haulage distance, however the stranded volumes far exceed what those mills could process.

What this means is that while our domestic processors continue to face log shortages over the coming years and decades, particularly after the Black Summer bushfires, there is currently little capacity to pivot the resource that was being exported to China to the domestic sector.

AFPA and log exporters have worked closely with the Department of Agriculture, Water and Environment to develop a comprehensive package of reforms to phytosanitary processes that we hope will address the Chinese Government's phytosanitary concerns and allow for the resumption of the log trade as soon as possible.

China is Australia's biggest export market for logs and woodchips, accounting for 92% of total roundwood (logs) exports and 62% of total woodchip exports in 2018-19. Whilst a component of the logs that were being exported to China can be diverted to Australian processors, the vast bulk cannot be viably processed domestically and there is limited capacity to find alternative export markets.

As the trade freeze drags on, there is increasing concern that, even after all phytosanitary concerns are addressed, this suspension may continue for months or even years, creating devastating impacts across the supply chain, impacting tens of thousands of jobs including the domestic processing due the interconnected nature of the supply chain.

Boosting domestic manufacturing capacity to process some logs currently exported

The prospect of the China log trade suspension lasting several months or even years, and potentially spreading to other forest product exports, requires short and longer term solutions to support the domestic manufacturing sector to utilise more of the resource that is currently being exported.

Unlike other agricultural commodities, there is very little short-term capacity to diversify forest product exports away from China, either internationally or domestically. However, longer-term initiatives could assist in growing domestic processing opportunities to use a far greater proportion of the materials currently being exported.

AFPA has consulted members across the supply chain to assist policy makers by identifying a raft of short and long-term initiatives that have the potential to address critical resource challenges facing bushfire-affected mills, fast-track the development of new and innovative manufacturing opportunities, and expand the processing capacity of existing mills.

Combined, these measures have the potential to turn a crisis into a job-creating, manufacturing-boosting opportunity that will turbocharge the forest products sector's innovation program and deliver on the vision of the Federal Government's National Forest Industries Plan. These include:

- Urgent Government support to address the immediate impacts that the trade suspension is already having on the supply chain, such as contractors being stood down as harvesting operations are deferred.
- Support for domestic processors to accelerate their production capacity growth plans and ability to process smaller logs into new products, including engineered wood products.

- Support for new manufacturing capacity to process significantly more hardwood and softwood non sawmill quality logs domestically. (eg pulp mills, panels plants, bioenergy facilities).
- Upgrading existing road and rail infrastructure to make it more cost-effective to transport logs (and other commodities) longer distances. This could include:
 - a. Improving rail infrastructure including at strategic intermodal terminals to facilitate rail freight of logs and other commodities.
 - b. Optimising truck routes and capacity (e.g. fast-tracking new A double routes and bridge upgrades).

Export market expansion and diversification

AFPA welcomes the recent Federal Government \$72.5 million *Agri-Business Expansion Initiative* as an important first step in helping agricultural commodities affected by China’s trade suspensions. AFPA also supports the Federal Government’s ongoing efforts to restore the trade relationship with China, which we hope can resume as soon as possible. In the meantime, we request support from the Federal Government to expand existing markets and to access new markets.

Aside from China, Australia has a range of valued trading partners internationally. 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 (Australia’s second-largest wood products export destination in 2018–19, with \$537 million of total exports) with the support of the Department of Agriculture, Water and Environment.

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 and support a more strategic approach to our market access activities.

AFPA seeks support to develop alternative export markets across log, woodchip and sawn timber products such as India, Japan, Korea, Indonesia and Vietnam, such as through Ministerial trade missions, reducing non-tariff trade barriers and supporting marketing efforts.

As a member of the National Farmers Federation, AFPA supports the initiatives proposed by the NFF in its budget submission to boost market development and diversification funding for the agriculture (and forestry) sector, and reducing the cost of our domestic supply chains that acts as a competitive disadvantage for Australian agriculture.

Recommendation: Establish a manufacturing innovation fund to boost Australia’s domestic wood processing capacity to process more of the logs that are currently exported.

Recommendation: The Government commit funding to support our forest product exporters to access new markets and grow existing international trade markets, including the allocation of 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.

- **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: 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 it would establish nine Regional Forest Industry Hubs (Hubs). Hubs are existing aggregations of plantation and managed native forest as well as associated wood fibre processing and manufacturing facilities.

The Government has allocated around \$1 million for each of the nine initial Hubs over 2-3 years, which has enabled these forestry regions to deploy resources in a range of ways to plan for the strategic growth and innovation of their industries. The hub model is proving very successful in turbo-charging the planning and collaboration that AFPA envisaged. However, to date the Government has neglected to include two other key regional forest industry hubs (at Eden NSW and the NT) identified by industry.

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 those regions.

Recommendation: 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 from the Federal Government 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: 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 CSF projects with multiple benefits, such as forest plantation and farm forestry projects, to support the delivery of the Government's [Growing a Better Australia – A Billion Trees for Jobs and Growth](#) commitment**

Australia's forest plantations are a renewable and sustainable resource that can store carbon dioxide (CO₂) as they grow, and continue to store carbon as wood, paper and bioproducts and for many years. New plantations also underpin 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 (CSF), formerly 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.

AFPA welcomed the Federal Government’s removal of regulatory barriers last year to enable production tree planting on farms and in plantations.

This change allows new plantation projects in areas over 600mm of rainfall to proceed with registration, if they are located in a region declared by the Minister for Energy and Emissions Reduction to be a ‘exempt region where material risks to water availability are likely to be addressed’. To date, 4.5 of the Regional Forest Industry Hubs (only the South Australian half of the Green Triangle hub) have been declared exempt regions, but the others have not.

This policy change has paved the way for tens of millions of new trees to potentially be planted over the coming decade as these activities are now supported through the Government’s Climate Solution Fund in several key forestry regions. AFPA recommends the Government declare the remaining hubs exempt regions to fully realise the benefits of this policy.

There is also an opportunity for the CSF to be broadened to incentivise not just carbon abatement projects but also projects that deliver multiple benefits. Plantation projects, for example, deliver employment and environmental benefits in addition to carbon sequestration.

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.

Recommendation: The Federal Government declare the remaining Regional Forest Industry Hubs as exempt regions to enable plantation projects in these hubs to participate in the CSF.

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

- **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. It would build on the success of the Federal Government's [Educating Kids About Agriculture: Kids to Farms](#) that is being delivered through state and territory farming bodies.

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 recent campaign 'Wood. The Ultimate Renewable™', based on extensive industry and consumer research.

Recognition of the need, and potential funding, for a Forests to Timber School 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.

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 that could deliver the program across Australia.

Recommendation: 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.