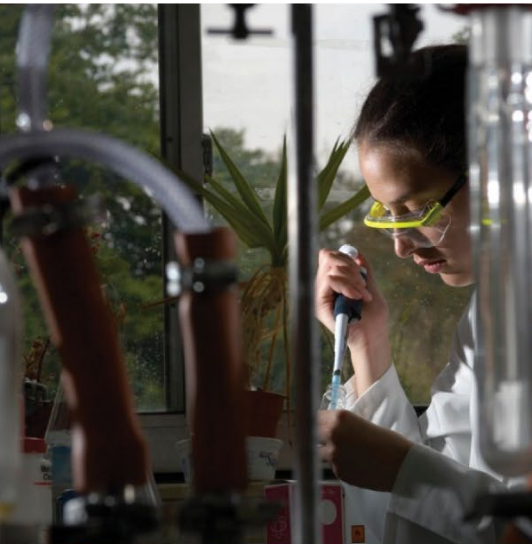




Australian
Forest
Products
Association

AUSTRALIAN FOREST PRODUCTS ASSOCIATION

SUBMISSION – Interim Report Investing in cheaper, cleaner energy and the net zero transformation’ – released August 2025.



September 2025

Productivity Commission

Investing in cheaper, cleaner energy and the net zero transformation

5pillars@pc.gov.au

About Australian Forest Products Association (AFPA)

The Australian Forest Products Association (AFPA) is the peak national industry body representing the Australian forest, wood and paper products (forestry) industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

Australia's Forestry Industries directly employ approximately 80,000 people and another 100,000 indirect employees and is a major employer in many regional towns. Australian Forest Industries contribute \$24 billion to the Australian economy each year.

Re: SUBMISSION - Interim Report Investing in cheaper, cleaner energy and the net zero transformation' – due 15 September 2025.

AFPA welcomes the opportunity to provide a submission to the Productivity Commission's (PC) inquiry.

Executive Summary

AFPA supports the Government's objective of net zero by 2050 as an important element of Australia's international climate commitments. We agree with the PC's observation that the aim of Australian, state and territory governments should be to achieve net zero at the lowest possible cost to households, businesses and taxpayers.

AFPA notes that the inquiry 'focuses on improving emissions-reduction incentives in Australia's three highest emitting sectors: electricity, heavy industry and transport'. While large parts of AFPA's membership are not captured by these categories a lowering of the safeguard mechanism to 25,000 CO₂-e tonnes will likely capture a significant portion of the timber processing sector. Furthermore, they can be heavily impacted by incentives and imposts on those sectors. For example, members may rely on natural gas for industrial heat processes where biofuels are not an adequate source of heat or not feasible. Reliance on heavy vehicles are also a characteristic of the timber industry. The plantation timber industry also generates significant levels of Australian Carbon Credit Units. Thus, any policy that disincentivises timber expansion will decrease ACCU generation.

AFPA considers that the functioning of the safeguard mechanism including the threshold emissions level is a complex issue and should be considered in the review scheduled for 2026-27 following detailed analysis of options. AFPA recognises the need to address emissions from the heavy vehicle sector and supports the PC's observation about the need for technology neutrality for any incentive programs. However, it is important that expectations/requirements match the nature of the technical challenge. AFPA also notes the

particular challenges for regionally based industries that will need to be addressed in the design of incentives.

AFPA supports the proposal to develop national carbon values to estimate carbon prices needed to meet emission targets. However, AFPA suggests that the body should consider any anchoring and signalling effects of publishing national carbon values. Where possible, these should be specific to targets, stratified by category of emissions source and the methodology available for public review. We note that a carbon valuation could be part of a broader reinvigoration of the Office of Impact Analysis, giving the body power to ensure that the regulatory burden is minimised and any regulation that is necessary is efficient and best practice. AFPA strongly endorses the observation about the need to ensure that ACCUs have high integrity. AFPA notes there are many other sources of high-quality ACCUs that are not accessible yet under the ACCU framework and should be supported and fast tracked.

AFPA believes the Australian Government should reform environment laws to expedite approvals for all economic projects and better protect the environment. The law should NOT be changed solely to allow decision-makers to take into account the fact that a project is important to Australia's clean energy transition. AFPA strongly agrees that: "National environmental standards would also support bilateral agreements, the primary mechanism for reducing unnecessary duplication between jurisdictions."

AFPA notes that already half the cost of a new house is regulation, and the effort needs to focus on reducing the regulatory burden. Thus, AFPA suggests that a nationally consistent climate resilience star rating system for housing should only be implemented if it replaces or reduces regulatory burden.

Specific Comments

Reducing the cost of meeting emissions targets

Draft recommendation 1.2

The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

AFPA notes that the current threshold is estimated to account for 80% of all emissions from the sector. Reduction of the threshold to include considerably more companies would have uncertain and likely unintended consequences.

DCCEEW analysis¹ shows that a lower coverage threshold – of 25,000 tonnes or 50,000 tonnes – would change the nature of facilities covered by the scheme without covering significantly more emissions.

Using emissions data reported for 2020/2021 under the NGER scheme and the National Greenhouse Gas Inventory: At a coverage threshold of 50,000 tonnes, around 110 new

¹ Reforms to the Safeguard Mechanism, Regulatory Impact Analysis, Department of Climate Change, Energy, the Environment and Water:
<https://oia.pmc.gov.au/sites/default/files/posts/2023/05/Publish%20Version%20-%20Impact%20Analysis.pdf>

facilities would be covered, covering only an additional 1.6 per cent of Australia's national emissions. If the coverage threshold is lowered to 25,000 tonnes, a total of around 250 new facilities would be covered, covering only an additional 3 per cent of national emissions. This compares with the 100,000-tonne threshold, which covered 136.9 million tonnes of CO₂-e in 2020-21 from 212 facilities (over 80% of emissions).“ This would also increase the administrative and regulatory burden by requiring many smaller businesses to become compliant, which would include the submission of new reports and applications to the Clean Energy Regulator.

New production variables and emissions intensity values would need to be defined for several industrial sectors not yet covered under the Safeguard.

Smaller companies may not have the resources to meet the required reduction resulting in closures, loss of jobs and lost turnover. That lost output is also likely to lead to increased leakage (identified as an issue by the PC.) as imports increase. It would seem much preferable to provide positive incentives targeted at those industries accounting for the 20% of emissions not captured by the safeguard mechanism. Under the proposal the complexity and administrative cost of the Safeguard scheme would also increase.

There are also structural issues related to the safeguard mechanism as bigger facilities can often produce lower emissions per unit of production. Having the safeguard mechanism set at a particular level encourages facilities to stay smaller (and often less efficient) to miss the trigger level and won't deliver the lowest emissions outcome.

Draft recommendation 1.3

Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles

AFPA accepts the need to address emissions from the heavy vehicle sector. We support the PC's observation about the need for technology neutrality for any incentive programs. However, it is important that expectations/requirements match the nature of the technical challenge. The PC acknowledges that while there may be a straightforward resolution for light vehicles (commercial and non-commercial), the way forward for long haul heavy vehicles is much less clear.

The PC highlights the fact that some emission reduction can come at a very high price per unit of emission. Industries should not be driven out of business due to the absence of a timely and feasible / cost effective technical solution. Such an outcome would only result in self-defeating international leakage as operations move offshore.

A recent report by Deloitte ² estimates that only 20% of the heavy vehicle sector will be electrified by 2050 and that low carbon Liquid Fuels will be important in helping the heavy vehicle sector decarbonise.

AFPA notes that the particular challenges for regionally based industries will need to be considered in the design of incentives.

Policies that support biofuels and bioenergy or at least don't preclude biofuels and bioenergy can provide other market drivers for cheaper alternatives

² **Securing our Fuel Future: Resilience Through Low Carbon Liquid Fuels (March 2025)**
[Industry Reports - Bioenergy Australia](#) (page 24)

The PC invited comment on 5 options (the paper discusses each option in some detail)

Option 1: Include a carbon component in a future road user charging scheme?

Option 2: Apply the Safeguard Mechanism to fuel wholesalers?

Option 3: Increase the rate of fuel excise paid by users of heavy vehicles?

Option 4: A targeted policy for low-carbon liquid fuels?

Option 5: A targeted policy for low-emissions vehicles?

AFPA supports Option 4: A targeted policy for low-carbon liquid fuels. The Deloitte report *Securing our Fuel Future: Resilience Through Low Carbon Liquid Fuels (LCLF)* (March 2025)³ outlines why a targeted policy for low-carbon liquid fuels:

“Freight, mining, and aviation will continue to rely on liquid fuels out into the future. Aviation and shipping are harder to electrify because it is not practical to replace fuel with heavy batteries that can weigh many times more than the plane or ship itself. Similarly, batteries are impractical for long-distance road freight applications. Mining is power intensive and will rely heavily on liquid fuels to power off-road/off-grid applications in remote locations with limited or no access to 24/7 grid electricity. “

Providing appropriate policy settings for feedstock LCLF will be critical especially for road freight which the report states “underpins half of Australia’s total freight task by value”. Appropriate policy settings should include accommodating green production credits.

The PC also sought a response:

Information request 1.1 – Advantages and disadvantages of options to reduce emissions for heavy vehicles

What are the advantages and disadvantages of these options to reduce emissions from heavy vehicles?

- What would be the costs and benefits of each option?
- Would there be any consequences not mentioned in this section?
- What are the key implementation considerations?

Are there options not covered that the PC should consider? What would be their advantages and disadvantages?

No comment at this time.

³ *Securing our Fuel Future: Resilience Through Low Carbon Liquid Fuels* (March 2025) [Industry Reports - Bioenergy Australia](#)

Draft recommendation 1.4

Apply frameworks to achieve emissions targets at least cost and improve transparency

AFPA supports the proposal for an agency with relevant expertise to develop national carbon values to estimate carbon prices needed to meet emission targets. However, AFPA would suggest that the body should consider any anchoring and signalling effects of publishing national carbon values. Where possible, these should be specific to targets, stratified by category of emissions source and the methodology available for public review.

This carbon valuation could be part of a broader reinvigoration of the Office of Impact Analysis giving the body power to ensure that the regulatory burden is minimised and any regulation that is necessary is efficient and best practice. AFPA considers that this measure would assist in avoiding poorly designed incentives.

AFPA strongly endorses the observation about the need to ensure that ACCUs are high integrity. ACCUs are vital to ensure that emission reduction targets are met and met cost effectively.

AFPA notes there are many other sources of high-quality ACCUs that are not accessible yet under the ACCU framework and should be supported and fast tracked. The current process is unacceptably slow and complicated by seeking to achieve other policy outcomes (not related to emissions reduction). Other potential sources of carbon credits related to forestry industries include stored carbon in timber rich building solutions, renewable industrial heat, energy efficiency and emissions reduction projects in Australian industry.

Forestry industries have a particular opportunity to use wood fibre residues to produce renewable industrial heat and reduce reliance on fossil fuels. For example, a Green Production Credit scheme, modelled after the Green Aluminium Production Credit, to incentivise mills and factories to adopt lower-emission energy sources and energy efficiency measures to accelerate their transition to sustainable manufacturing.

The flexibility and versatility of industry operations and the distinct features of their processes and markets allows for a wide range of low-carbon solutions to be deployed. These solutions include, but are not limited to, biomass cogeneration, energy from residues and waste, on-site renewable energy generation, increased renewable electricity and energy uptake, electrification, and energy storage solutions.

A per-tonne incentive for low-carbon paper and packaging production would drive investment in clean energy infrastructure while ensuring global competitiveness for Australian-made products.

Speeding up approvals for new energy infrastructure

Draft recommendation 2.1

Reform national environment laws

AFPA believes the Australian Government should reform environment laws to expedite approvals for all economic projects and better protect the environment. The law should NOT be changed to solely allow decision-makers to take into account the fact that a project is important to Australia's clean energy transition.

AFPA endorses the proposed reform to environment laws and the introduction of national environmental standards while disputing the Samuel Review's finding in relation to Regional

Forest Agreements (RFAs) which relied on advice from the Wilderness Society and a misunderstanding of legal finding in relation to VicForest and the application of the precautionary principle.

AFPA agrees that: *“National environmental standards would also support bilateral agreements, the primary mechanism for reducing unnecessary duplication between jurisdictions. Clear, legal standards would put the Australian Government and state governments ‘on the same page’, giving the Australian Government greater confidence that environmental impacts are being assessed and managed appropriately when a state government conducts an assessment under a bilateral agreement”*.

AFPA notes the findings of the federal court, January 2024, in the context of the North East RFA. The presiding judge found: *“It is important to stress that the effect of an RFA is not to leave a regulatory void with respect to the forest regions covered by the NE RFA. Rather, as I explain below, an RFA provides an alternative mechanism by which the objects of the EPBC Act can be achieved by way of an intergovernmental agreement allocating responsibility to a State for regulation of environmental matters of national environmental significance within an agreed framework.”*

We note that, consistent with other RFAs, the NE RFA references the EPBC Act 94 times and Matters of National Environmental Significance 22 times. In fact, RFAs provide a proven model for providing a single point of responsibility to manage/oversee the environmental and social requirements of both national and state by vesting those responsibilities in the State subject to periodic review of outcomes under the agreements.

Addressing barriers to private investment in adaptation

Draft recommendation 3.2

Develop a nationally consistent climate resilience rating system for housing

AFPA notes that recent HIA research demonstrates that half the cost of a new house is government charges and regulations, and the effort needs to focus on reducing the regulatory burden. Thus, AFPA suggests that a nationally consistent climate resilience star rating system for housing should only be implemented if it replaces or reduces regulatory burden. We have already come a long way in energy rating with 7-star efficiency now for new houses. However, we need to look at existing housing stock. Upfront embodied carbon emissions reduction incentives for timber rich solutions are an important opportunity for gains to be made.

This should also be accompanied by a broader reinvigoration of the Office of Impact Analysis giving the body power to ensure that ensure regulatory burden is minimised and any regulation that is necessary is efficient and best practice.

Solving issues like wet-proofing, of areas at risk of inundation from flood or non-combustible roofing frames to protect from bushfire (CSIRO 2021⁴) are complex issues and we shouldn't limit ways to solving these problems- for example excluding timber because of perceived fire risk instead of managing the fire risk when other options like steel frames might not burn but their structural integrity will be destroyed at high temperatures resulting in the need to demolish the structure.

⁴ <https://research.csiro.au/bushfire/new-builds/roofs/#:~:text=the%20fire%20event,-Do's,fire%20to%20the%20roof%20cavity>

Conclusion

Decarbonising the economy is complex, and poor policy settings can lead to economic dislocation and simply push industry offshore with worse emissions outcomes.

We agree with the PC's observation that the aim of the Australian, and state and territory governments should be to achieve net zero at the lowest possible cost to households, businesses and taxpayers.

Government needs to be careful in making changes to the safeguard mechanism to ensure it doesn't just make Australian manufacturing businesses uncompetitive and unviable and the government should work on positive policy incentives to reduce the emissions of smaller businesses.

We also note that decarbonising the heavy transport sector is an important part of the transition but with large transport distances and difficulties in electrifying this transport, it needs to be thought through carefully to ensure it doesn't just increase cost of domestic manufacturing with the effect of making them uncompetitive.

Forestry industries have a particular opportunity to use wood fibre residues to produce renewable industrial heat and reduce reliance on fossil fuels. For example, a Green Production Credit scheme, modelled after the Green Aluminium Production Credit, to incentivise mills and factories to adopt lower-emission energy sources and energy efficiency measures to accelerate their transition to sustainable manufacturing. The same type of initiative could also support the development of Low Carbon Liquid Fuels to help decarbonise the heavy freight sector. This is particularly important in ensuring the availability of cost-effective building materials to meet Australia's future housing needs.