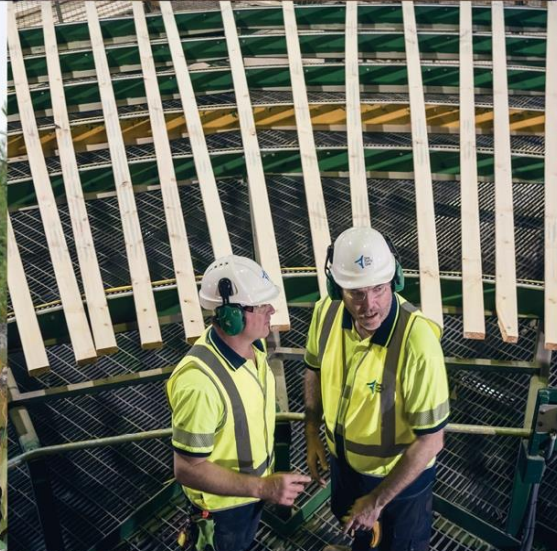
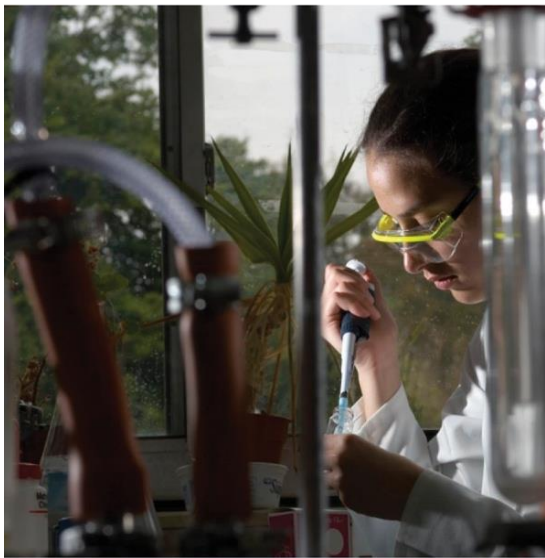




Australian
Forest
Products
Association

Submission to the Consultation
on a Sustainable Finance Strategy

November 2023



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Sustainable Finance Strategy

AFPA thanks the Treasury for an opportunity to comment on the Sustainable Finance Strategy: Consultation paper, November 2023

The Australian Forest Products Association (AFPA) is the peak national industry body representing the Australian forest, wood and paper products 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 Forest 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.

Comments

AFPA endorses the three overarching objectives: mobilising the private sector investment needed to support net zero; ensuring Australian entities can access capital and business opportunities aligned with positive sustainability outcomes; and ensuring climate and sustainability-related opportunities and risks are well-understood.

AFPA also supports the key principles outlined in the paper: alignment with global markets, high ambition, support for the emissions reduction plan, a staged and sequenced approach, simple and usable requirements, climate as the first priority, and collaboration and shared responsibility.

The focus of AFPA's comments relate to 'Pillar 1: Improve transparency on climate and sustainability' and Priorities 1,2&3.

Priority 1: Establish a framework for sustainability-related financial disclosures

- What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?
 - AFPA notes that governments and government departments, agencies and other government entities will need to recognise that the expectations on small and medium enterprises will need to reflect the often limited resource base of those companies. A shared responsibility and shared effort approach would allow reporting and assessment requirements where firms are not required to repeat work that could effectively be undertaken once and shared between enterprises. Regional Forest Agreements represent one such shared approach

where a solution is not found enterprise by enterprise but rather at a higher level (in this case at a regional level).

Priority 2: Develop a Sustainable Finance Taxonomy

- What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?
 - AFPA agrees that “access to credible, accurate and actionable information on climate and sustainability is critical”. AFPA also agrees with the principle of a ‘high ambition approach’ while promoting regulation that is ‘simple and useable as possible’. However, sustainability objectives are often a highly contested space and an initial focus on GHG emissions/climate would greatly reduce the complexity of the exercise and avoid the subjectivity that comes with multiple interacting objectives.
 - AFPA notes that it would also be desirable to avoid duplicating the functions and roles of other regulatory organisations (eg the foreshadowed Environment Protection Agency) and to rely at least in part on their expertise, regulatory powers and assessment/approval processes.
 - A strict reliance on objective scientific assessment should be a goal. However, this requires that adequate resources (including public resources) are available to undertake the required assessments in the face of a changing environment. AFPA notes that until recently government funding and resourcing of the technical capability to undertake the science required to provide credible, accurate and actionable information on many sustainability issues has been declining.
 - AFPA notes that failure to definitively resolve many of the sustainability debates creates inherent uncertainty as well-resourced campaigns, however ill-informed or unbalanced, against government and institutions can lead to regulatory uncertainty and public pressure on financial institutions. Transparency, accurate and credible data and the involvement of relevant experts will be required to provide community assurance in the presence of ill-informed advocacy.
- What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?
 - AFPA notes that a changing environment will require an ongoing monitoring of the environmental issues and the ability to respond to changing levels of risk.
 - AFPA acknowledges that all aspects of sustainability should be addressed as far as practicable but notes that important decisions are often made without recourse to science or objective assessment. Many advocates proffer false correlations, selective data and emotive argument rather than allow the issue to be decided by objective assessments.
- What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia’s financial and regulatory architecture?
 - AFPA notes that the ACCU market is currently regulated in line with other financial products by ASIC; however, lacks the benefits of the maturity of many other financial product markets, particularly with intermediaries, advisory and financial literacy. Specific effort should be made to improve the markets understanding of the ACCU

market, and empower intermediaries and financial advisors to support market development.

Priority 3: Support credible net zero transition planning

- What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?
 - AFPA suggests that the priorities for expanding the taxonomy should be those areas that are not already well regulated and/or not subject to comprehensive and effective international treaties. This approach would avoid the risk of overlapping regulatory effort and maximise the benefit of the expanded taxonomy. Recognising that the taxonomy should eventually address all forms of environmental sustainability.
- What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?
 - AFPA would be in favour of increasing efforts to stabilise ACCU prices. Confidence in the value of units is critical for the ongoing growth and reliability of markets for any product, particularly for financial and investment products. Historically, markets for emissions and environmental units have failed when confidence in the underlying value of units has eroded, with the collapse of the Chicago Climate Exchange being a recent example of this.
 - The opacity of the ACCU market makes it difficult market participants to agree on the value of these units, limiting both spot and future market transactions. The CER should make efforts to increase data on trades, including the value and volume of units traded. Additionally, the CER should consider opportunities to simplify unit transactions through both education and facilitation (or similar sup[port]) for trading platforms that integrate ANREU transactions with the exchange of cash underpinning these trades.

Priority 4: Develop a labelling system for investment products marketed as sustainable

- What should be the key considerations for the design of a sustainable investment product labelling regime?
 - The Government should consider labelling ACCUs for co-benefits. Currently, the market is valuing co-benefits, including promoting biodiversity, soil quality or involvement of indigenous communities on top of the method used to generate ACCUs. In considering the national biodiversity crediting framework, and aligning with existing frameworks for recognising activities that provide material social benefit, the Government should consider simplifying these various frameworks in a way that makes it easy for market participants to either mark or identify ACCUs that provide these benefits.

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**Australian
Forest**

AFPA is the peak national industry body representing the resources, processing, and pulp and paper industries covering the forest products value chain.

AFPA represents the interests of the Australian forest products industry.