



National Association of
Forest Industries

Submission

On

Carbon Pollution Reduction Scheme Green Paper

September 2008

Introduction

The National Association of Forest Industries (NAFI) welcomes the Australian Government's recently released *Carbon Pollution Reduction Scheme (CPRS) Green Paper*, and broadly supports proposals to include Australia's forest industry in the design of the scheme.

NAFI appreciates the Government's recognition in the Green Paper of the carbon abatement potential of Australia's forest industry and the unique nature of the industry as net carbon positive.

Provided with the appropriate economic signals through the CPRS and complementary policies, Australia's forest industry has the ability to:¹

- provide 81 million tonnes of CO₂e abatement (20 percent of Australia's abatement task) each year by 2020;
- generate over \$19 billion of new investment in forests and manufacturing;
- create over 16,000 additional jobs in rural and regional Australia, associated with new investment; and
- reduce Australia's \$2 billion trade deficit in forest products.

Despite the Government's broad acknowledgement of the forest industry's carbon abatement potential under the CPRS, there remain a number of details and uncertainties which need to be resolved to ensure this potential is realised.

The determination of specific rule sets for the various aspects of forestry's inclusion under the scheme will be critical in determining the industry's ability to grow, remain competitive and consequently deliver valuable carbon abatement.

While, the Green Paper provides a good overarching framework for the inclusion of the forest industry in the CPRS, there remain further opportunities for the industry to

¹ NAFI (2008). A strategy for the development of Australia's sustainable forest industries.
www.nafi.com.au

make a greater contribution to Australia's carbon abatement efforts under the scheme. These opportunities are centred on more comprehensive inclusion of the industry from scheme inception.

The following submission comments on various aspects of the potential inclusion of forestry under the CPRS as set out in the Green Paper. NAFI will provide specific detail on the coverage of reforestation in a response to the Department of Climate Change's recently issued discussion paper on the subject.

Article 3.3 forests (post-1990 reforestation)

NAFI endorses the Green Paper's position on the inclusion of reforestation from scheme inception with participation on an 'opt in' basis. It is important, however, that the scheme delivers the flexibility intended in the proposal so that plantation managers can secure future investment in plantation development and carbon abatement.

This requires the provision of appropriate incentives for plantation managers to opt into the scheme.

The critical element is recognition under the scheme of carbon sequestration in complying plantations established between 1990 and the commencement of the scheme. As such, NAFI advocates for recognition of this carbon abatement from scheme inception.

Future carbon flows from these plantations need to be treated appropriately to ensure that perverse outcomes are not created, particularly in relation to land use change.

Specifically:

- carbon liabilities should extend no further than the level of carbon credits issued under the scheme (maintenance of the "harvest sub rule" is essential);
- a clear pathway is needed for existing plantation investment models to be adapted for participation in the scheme; and
- efficient carbon accounting methodologies, capable of adoption at various resource scales, are required, to send appropriate market signals.

NAFI will provide greater detail on the various aspects of coverage of reforestation under the CPRS (i.e. reporting and acquittal periods, accounting rules, thresholds etc) through a submission in response to the Department's discussion paper *Detailed designs issues relating to coverage of reforestation*.

This response will be derived from consultations with NAFI's plantation company members, which are responsible for the vast majority of Australia's post-1990, Kyoto-compliant plantations.

Article 3.4 forests (pre-1990 forests)

NAFI notes the Government's intention not to include in the CPRS, forests established prior to 1990, as these forests are not recognised in Australia's Kyoto accounts.

Despite this, **NAFI maintains its stated position that Article 3.4 pre-1990 forests (native forests and plantations) should be included from scheme inception, but treated initially as net neutral until finalisation of carbon accounting methodology.**

NAFI contends that these forests could be deemed 'Kyoto compliant' under Section 3.4 of the Protocol. Australia has a significant area of pre-1990 production forests (including over 9 million hectares of public production native forests and around 1 million hectares of plantations) and carbon stocks in these forests are increasing at over 20 Mt CO₂e per annum, according to national carbon accounts.

The inclusion of these forests in the scheme and the development of appropriate carbon accounting and reporting frameworks should have high priorities in Government planning.

NAFI recommends:

- the development of rules for Article 3.4 forests as part of the post-Kyoto negotiation process under the UNFCCC;
- the NCAS be further developed to ensure robust carbon accounting and low compliance costs.

Inclusion of these forests in the CPRS would demonstrate Australia's leadership, particularly with neighbouring developing countries, in comprehensively accounting for emissions and sequestration from all forests. It would also provide greater coverage in accounting for and including carbon storage in harvested wood products.

Carbon in wood products

NAFI continues to hold the strong position that carbon storage in harvested wood products should be recognised and included from scheme inception.

The industry acknowledges the Australian Government's intention, as stated in the Green Paper, to influence international rules on recognising carbon in wood products. However, there is an opportunity for Australia to show leadership by including carbon in wood products from scheme inception through the use of existing robust accounting methodology.

As stated in a recent Forest and Wood Products Australia (FWPA) report, 'compensation to emissions-intensive trade-exposed sectors (under the CPRS) provides an advantage to wood's key competitors that would deny the industry benefits that should flow to it from carbon pricing due to its low emissions status. Recognition of carbon stored in harvested wood products may act as a counter balance, restoring some of the competitive advantage that should arise to wood from carbon pricing'.²

² FWPA (A. George) 2007. Impact of carbon trading on wood products.
www.fwprdc.org.au/content/pdfs/new%20pdfs/PR07_1059_carbontrading_web.pdf

Recognition of carbon in wood products is important in encouraging greater use of wood products over more emissions-intensive materials, thus helping to meet emission reduction targets through carbon sequestration.

NAFI acknowledges that recognition of carbon in wood products under the CPRS will require resolution of some perceived technical and compliance issues. However, the forest industry contends that there is sufficient supporting information to allow for the assignment of generic values to overcome any 'information gaps'.

Bioenergy

The forest industry supports the Green Paper's proposed treatment of bioenergy and biofuels in the CPRS, particularly given the significant potential for bioenergy generation from forest industry residues.

Maximising the use of wood waste resources (for bioenergy) that are currently available in Australia has the potential to:³

- reduce greenhouse gas emissions by around 3 million tonnes of CO₂e each year;
- create over 2300 new direct jobs;
- deliver over \$800 million of direct investment in renewable energy facilities; and
- supply renewable electricity to at least 400,000 houses.

Realising this potential will require a consistent national policy and regulatory framework that recognises and allows for the use of all forms of forest residues available for bioenergy. There are existing regulations (at both the Commonwealth and State level) which unnecessarily restrict the use of certain forms of wood waste (mainly from native forests) for bioenergy.

The proposed new National Renewable Energy Target scheme being negotiated through the COAG process must be harmonised and ensure any unnecessary regulatory barriers to the use of all forest industry residues are removed.

Deforestation

Broadly, NAFI endorses the Government's approach, contained in the Green Paper, to exclude deforestation from the CPRS, in the context of:

- difficulties associated with complex accounting and assignment procedures;
- acknowledgement of Australia's comprehensive regulatory framework applying to land clearing; and
- inherent risks associated with pre-emptive clearing.

In excluding deforestation under the CPRS, it is extremely important, however, that there are suitable complementary policy measures and incentives in place to ensure that Australia continues to maintain and expand existing and new forest resources.

³ MBAC Consulting (2006) *Wood Waste for Renewable Energy* Project funded by FWPRDC and Australian Government.

Australia's land clearing regulations are mostly focussed on native vegetation, meaning clearing of native forest resources is very tightly controlled. In terms of plantations, the risk of significant deforestation for the pre-1990 estate is relatively low, given that the majority of this resource is owned and managed by state governments, which must abide by strict policy and regulations to ensure ongoing replanting and management.

However, for the post-1990 plantation estate, the majority of which is privately owned, the risk of deforestation is much greater if appropriate scheme rules, incentives and complementary policy settings are not in place.

Already in Australia a number of policy issues exist which have the potential to threaten the maintenance and expansion of plantation resources. These issues include the development of water policy, land-use regulations and the treatment of plantation taxation arrangements.

Plantation taxation arrangements have played a critical role in facilitating the expansion of Australia's post-1990 plantation resource. Maintaining investment through these arrangements will be critical in ensuring the continuation of plantation development and the subsequent carbon sequestration benefits.

The development of water policy and land-use regulations will impact on plantation development. While NAFI acknowledges the Green Paper position that these issues should be 'addressed directly through water policy and natural resource management policy', it is imperative that these policies are based on triple bottom line assessments, and in particular take into account the carbon sequestration values of plantation forests.

Fuel tax rebates

NAFI seeks clarification of the forest industry's omission from the Green Paper statement that 'the Government will provide an equivalent (fuel tax) rebate to businesses in the agricultural and fishing industries for three years'.

Forest industry businesses must be included alongside agriculture and fishing in terms of their eligibility for any fuel tax rebates, as assistance in dealing with the potential for higher fuel prices as a result of inclusion of the transport sector in the CPRS.

Currently there is no differentiation between these sectors in terms of access to fuel tax credits under the *Fuel Tax Act*. As such, there should be no differentiation between the sectors in terms of any further access to fuel tax rebates under the CPRS.

Fuel costs represent a major cost component for the harvest and haulage activities associated with production forestry. The sector is no different from agriculture and fishing in the potential impacts of rising fuel prices on production, efficiency and economic viability.

The forest industry has had, and will continue to play, an extremely valuable role in the social and economic wellbeing of rural and regional Australia, alongside both

agriculture and fishing. **Therefore, it stands to reason that the industry should be granted equal and equitable access to any fuel tax rebates available to rural sectors as a result of increasing fuel prices under the CPRS.**

Conclusion

Australia's forest industry remains committed to working with the Australian Government to ensure comprehensive inclusion of the industry from inception of the CPRS.

However, for the forest industry to adequately evaluate the impacts of the CPRS, we recommend that the industry is provided with timely exposure to the draft legislation prior to it being finalised.

As stated in this submission, NAFI will provide greater detail on the various aspects of coverage of reforestation under the CPRS through our response to the Department of Climate Change's reforestation discussion paper.

If there are any queries in relation to NAFI's submission, please contact NAFI's Senior Forest Policy Analyst, David de Jongh, on (02) 6285 3833 or david.dejongh@nafi.com.au.