



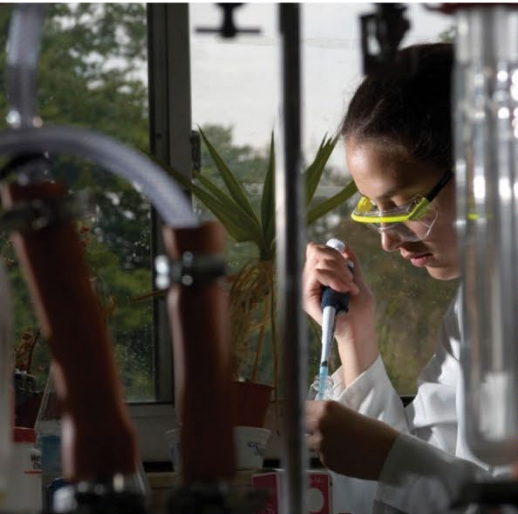
Australian
Forest
Products
Association

AUSTRALIAN FOREST PRODUCTS ASSOCIATION

Submission to

*Safeguard Mechanism (Crediting) Amendment
Bill 2022 [Provisions] Inquiry*

January 2023



25 January 2023

Committee Secretary
Senate Standing Committee on Environment and Communications
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About Australian Forest Products Association (AFPA)

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.

AFPA's tree growing members are 100 per cent globally certified and are carbon positive with our plantations storing an estimated 258 million tonnes of carbon. Our Industry plants around 70 million plantation trees every year and supports the Government's ambition to plant an additional one billion plantation trees, which will contribute over 500MT CO₂-e by 2050.

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.

SAFEGUARD MECHANISM REFORMS

The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission in response to the *Safeguard Mechanism (Crediting) Amendment Bill 2022*.

This bill seeks to amend the *National Greenhouse and Energy Reporting Act 2007* and *Australian National Registry of Emissions Units Act 2011* to enable the creation and trading of Safeguard Mechanism Credits (SMCs). The bill would establish a framework for creating SMCs and managing how SMCs are issued, purchased and registered in Australia's National Registry of Emissions Units. The government is consulting on design details for Safeguard Mechanism reforms which are enabled by these legislative amendments.

This submission is made on behalf of forest and forest product industry participants with a particular focus on pulp, paper, fibre packaging and tissue as the sector most affected by the amendments. Currently two paper mills exceed the 100,000 tonnes of CO₂-equivalent direct (scope 1) emissions Safeguard Mechanism threshold, while a number of other paper and timber production facilities have annual emissions between 25,000 (the National Greenhouse and Energy Reporting Scheme (NGERS) threshold) and 100,000 tonnes. The treatment of facilities as they drop below the Safeguard Mechanism threshold remains a question, which raises a potential situation where different facilities may have a similar emissions profile but end up operating under different regulatory requirements, if one has a Safeguard Mechanism obligation and the other does not.

There are implications for industry from the interaction between SMCs and Australian Carbon Credit Units (ACCUs) which may affect how carbon credit markets operate. A further challenge for the forest and forest products industries is the potential increase in demand for offsets which may have impact on critical fibre supply.

Support for decarbonisation

Forest product industries acknowledge the importance of decarbonisation and broadly support the Australian Government's emissions reduction targets of 43 percent reduction by 2030 and net zero by 2050. There will be opportunities and challenges for pulp, paper, fibre packaging and tissue manufacturers with potential for significant positive contributions. Individual facilities and companies have different means to contribute towards the national reduction targets. Companies will determine their own commitments and potential contributions to the national net zero goal based on individual and specific circumstances, noting that decarbonisation of industrial facilities is particularly difficult, complex and costly.

When it comes to practical responses to address climate challenges, forest and forest products industries, including pulp, paper, fibre packaging and tissue, have a number of specific advantages compared to other sectors of the economy:

- Forestry is the only industry that is actively sequestering carbon from the atmosphere, storing it securely in forms that are useful and valuable
- Harvested forest products provide significant opportunities to reduce emissions through substitution and replacement of fossil-fuel-derived material and fuels. From construction materials to cardboard, forest products are more environmentally friendly, sustainable, and recyclable than their alternatives, and most importantly are truly renewable.
 - Using biomass for energy generation can provide carbon-neutral renewable baseload power with no net increase in carbon if the cycle of growth and harvest is sustained. By contrast burning fossil fuels releases CO₂ that has been locked up for millions of years. Bioenergy is unique among renewable energy technologies as it can be used across all three energy sectors (transport, electricity and heat)
- Unlike some other hard-to-abate sectors, pulp, paper, fibre packaging and tissue production involve a relatively small number of companies and facilities, and with appropriate focus and assistance, the sector could become a domestic and global exemplar of practical climate action for industry.

There is a clear need for a collaborative partnership between the Australian government and industry to proactively manage the transition to carbon-neutral and low carbon activities and production. Not following this path risks a diminished competitive position within global markets and a long-term decline in Australian production, productivity, capacity and skills in manufacturing and jobs. Offsets alone will not achieve Australia's mid or long-term emissions reduction targets.

Emissions reductions across the sector have already been delivered through on-plant efficiency programs and these incremental gains will continue to be pursued wherever possible. However, it must also be noted that the types and scale of emissions improvement envisioned through the Safeguard Mechanism reforms will not be achieved through low level changes and a smooth, linear progression. It will require significant investment for the deployment of new processes and technologies, with a small number of step changes likely in the period to 2050. Confidence and certainty in both policy and operating environments is necessary for the required investment to occur.

Pulp, paper, fibre packaging and tissue manufacture in Australia is emissions-intensive and trade-exposed. Australian manufacturers operate within international commodity markets and there is very little opportunity to adjust prices in response to rising input costs with significant pressure coming from international competitors. Import penetration into the Australian market is at least 54 percent, with some sectors nearing 80 percent¹. Changes to policy settings that substantially or rapidly increase production costs will have immediate detrimental impacts.

¹ [Pulp & Paper Sector Status as an Emissions Intensive and Trade Exposed Industry](#)

Reform of the Safeguard Mechanism

The Safeguard Mechanism is an established policy framework focused on limiting emissions from large industrial facilities. The reform program changes the intent of the Mechanism from limiting emissions growth to actively driving emissions reduction. Consistent with the current operation of the Mechanism, emissions over a set level will need to be offset through the surrender of carbon credits. In future each covered facility will have an individually negotiated decarbonisation trajectory.

The pulp and paper sector has identified the following concerns in relation to the general Safeguard Mechanism reform agenda:

1. Rapid implementation despite the complexity and significant implications of reforms
2. The limited engagement with individual facilities given the scale of the challenge, the requirement to implement legislative changes and the need to negotiate individual facility outcomes prior to the 1 July 2023 commencement. The preference is for the scheme to be designed properly to be enduring and effective. Imposition of an arbitrary commencement date should not be allowed to drive poor and/ or perverse outcomes
3. Facilities must be able to flexibly manage decarbonisation in the ways that are best suited for their circumstances. The separate arrangements for Safeguard Mechanism Credits and Australian Carbon Credit Units could diminish opportunities by limiting the value of SMC rather than ensuring they reflect the characteristics and value of emissions reductions achieved at other) industrial facilities
4. There appears to be a lack of consideration of the scale of financial challenge involved in the transition of industrial facilities to low emissions production activities
 - a. Both capital and ongoing operating expenses are generally higher under a low-emissions scenario
 - b. Safeguard Mechanism Credits (SMCs) do not represent a revenue source sufficient to incentivise change
 - c. Australian Carbon Credit Units (ACCUs) may provide some assistance (although unlikely on their own to be enough), depending on prevailing market conditions
 - d. Targeted assistance will be necessary to accelerate of the transition.
5. Facilities impacted by the safeguard mechanism represent the only part of the economy now facing coercion to decarbonise. Every part of the economy will play a role and different industries and activities will have different opportunities for contribution in scale, scope and speed. Focusing on such a narrow sector of the economy risks offshoring emissions with likely worse outcomes locally and globally
6. There is potential for very aggressive decarbonisation trajectories to be imposed on facilities regardless of whether they are technically, financially or practically feasible
7. There is a challenge to ensuring equity of treatment for facilities across the pulp and paper sector given that some are covered by the Mechanism and some are not, with the potential to skew the competitive environment in a market where margins are tight. Larger facilities caught by the safeguard mechanism may have lower per unit emissions, but the mechanism encourages smaller operations to avoid the mechanism with the result being the emissions per unit is higher.
8. The potential for perverse outcomes such as the relocation of production from Australia to another country or through increased pressures on ERF projects and carbon markets
 - a. With regard to emissions leakage, some international competitors are not facing any equivalent cost of carbon or other restriction on emissions. This could give rise to a situation where production relocates overseas, carbon emissions continue at a higher rate than was being delivered by Australian industry and those higher-embodied carbon products are imported to meet domestic demand

It is important to note that the Safeguard Mechanism only covers a proportion of industry in Australia – the National Greenhouse and Energy Reporting Scheme (NGERS) has data from more than 400 companies. This means there is an amount of industrial emissions that sit outside the Safeguard Mechanism and which are not subject to focused policies for emissions reduction. Facilities outside the scheme (whether domestic or international) will not be exposed to the same risks and costs of carbon abatement and this issue is exacerbated as the ratcheting mechanism comes into play.

Proposed legislative amendments

The legislative amendments proposed enable administrative arrangements necessary for the creation and management of Safeguard Mechanism Credits. Two points of particular note:

1. The Explanatory Memorandum (PART 1, Overview, point 14) states:

The Bill amends section 15B of the NGER Act to enable a person other than a controlling corporation or responsible emitter for a designated large facility to register to report under the NGER Act. This could be used to allow facilities to continue to generate SMCs if they are no longer covered by the Safeguard Mechanism and are not covered by existing registration provisions in the NGER Act. This would mean that they continue to have an incentive to reduce emissions as they near the Safeguard Mechanism's coverage threshold.

Arrangements surrounding what happens when a facility drops below the Safeguard mechanism threshold must be clarified. The opportunity to continue to generate SMCs is welcome, however it must be noted that this may create an uneven operating environment for facilities that never reached the Safeguard threshold and therefore do not have the same incentives for emissions reduction activities.

2. Our submission to the Safeguard Crediting Mechanism design consultation included the following recommendation:

Safeguard facilities must retain the right to generate ACCUs in addition to SMCs. Double counting provisions can be employed to manage this issue. Creating a linkage between ACCUs and SMCs will equalise the credit market and provide covered facilities more options and the freedom to choose the right pathway while also progressing real emissions reductions. Not linking ACCUs and SMCs creates opportunities for perverse outcomes and skewed markets.

Amendments proposed for Section 22XK of the National Greenhouse and Energy Reporting Act 2007 appears to appropriately manage this issue.

Phase in period

The reforms of the Safeguard Mechanism are due to commence from 1 July 2023. Businesses must have an appropriate period to adjust and respond to new requirements. Companies with a global footprint often operate on a calendar year for planning and budgeting, rather than a conventional Australian financial year cycle. A phase-in period should be at least 18 months, if not longer, to give companies time to assess and implement new systems and processes.

Contact

AFPA welcomes the opportunity to make this submission to the Senate Standing Committee on Environment and Communications. Questions about the content of this submission should be directed to Tim Lester, AFPA Senior Policy Manager, phone [REDACTED]



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

AFPA represents all elements of the value chain from the sustainable harvesting of plantations and multiple use natural forest resource including forest establishment and management, harvesting and haulage, processing of timber resources and manufacture of pulp and paper.