



SUBMISSION

Carbon Farming Initiative

*Department of Climate Change and Energy Efficiency (DCCEE) Consultation
Papers on: Design of the Carbon Farming Initiative;
Draft Guidelines for Submitting Methodologies*

January 2011

Introduction

The National Association of Forest Industries (NAFI) welcomes an opportunity to provide comment on the DCCEE consultation papers on: a) design of the Carbon Farming Initiative and b) draft guidelines for submitting methodologies.

NAFI is the peak representative body for Australia's forestry and forest based industry and represents the industry's interests to the public, governments and authorities on matters relating to the national development and sustainable use of Australia's forests and wood products.

NAFI notes that in the preparation of the consultation papers the drafters have unfortunately fallen into a number of common policy pitfalls relating to forestry activities. These have been noted in our submission and we look forward to working with the scheme designers to remedy these issues.

Forestry potential to contribute to climate policy

As a biological system that relies significantly on solar energy and the process of photosynthesis to produce a durable natural resource, the significant climate change benefits of forestry activities are generally well recognised. The main benefits from forestry activities include:

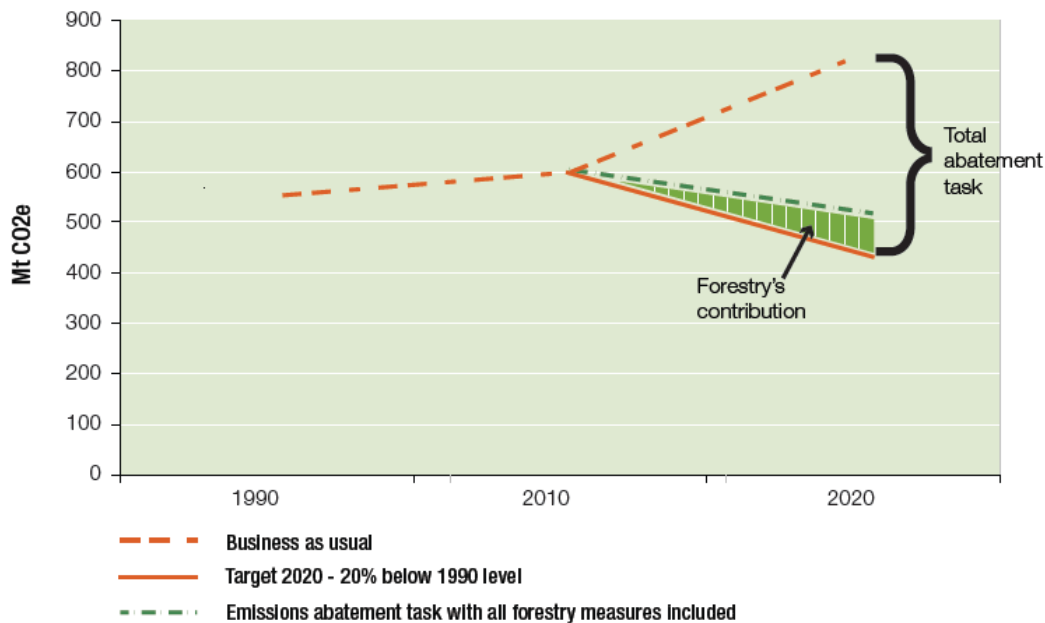
- the carbon stored in growing forests (i.e. carbon sinks);
- the carbon stored in durable wood products;
- the substitution of wood products for high emissions intensive materials such as steel and concrete; and
- the green energy produced from renewable wood waste.

The 4th assessment report of the International Panel on Climate Change (IPCC), clearly acknowledges these significant benefits:

“A sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.”

Consequently, with the right regulatory and policy framework, forestry activities could contribute as much as 20 per cent of Australia’s emission reduction target by 2020 (figure 1).

Figure 1: Forestry climate change mitigation potential



Source: NAFI 2008. Playing a Greater Role in Australia’s Future: A strategy for the development of Australia’s sustainable forest industries, page 15.

These opportunities have been discussed by NAFI in previous submissions to the Australian Government and Australian Parliament on the Carbon Pollution Reduction Scheme (CPRS) and related reforestation measures and climate policies.^{1 2 3 4}

Given the significant potential for forestry activities to remove greenhouse gases and assist the transition to a lower emissions future, it is critically important that policy measures such as the Carbon Farming Initiative (CFI) deliver cost-effective and practical mechanisms for private investment in tree growing and related land sector activities. Design rules for eligible projects need to be structured in such a way as to deliver low compliance and reporting costs for proponents while at the same time

¹ NAFI 2008. Submission on the DCC Discussion Paper: Detailed design issues relating to coverage of reforestation, September.

² NAFI 2009. Submission on the exposure draft of the Carbon Pollution Reduction Scheme legislation, April.

³ NAFI 2009. Supplementary submission to the Senate Select Committee on Climate Policy: inquiry into policies relating to climate change, May.

⁴ NAFI 2009. Submission on the exposure draft of the CPRS (CPRS Fuel Credits) legislation, April.

ensuring verifiable carbon pool measures to promote market transparency and tradability.

Role of the Carbon Farming Initiative

Following the political debate and delay over the proposed CPRS (i.e. economy wide carbon price) in 2010, which made provision for carbon offsets from planted forests (reforestation) under the scheme, the investment climate for carbon offsets has been highly uncertain. In addition, the phasing out of related programs such as Greenhouse Friendly in July 2010 has resulted in the inability of reforestation to participate in the voluntary carbon market. Investment in this market sector has effectively stalled.

The stated aims of the CFI are to provide ‘farmers, forest growers and land holders access to domestic voluntary and international carbon markets’ through a carbon crediting mechanism and to fast track the development of methodologies for offset projects.

The forest industry considers the CFI an important interim measure to provide investment certainty and access to voluntary domestic and international carbon markets, including the longer term potential for such offset activities to be recognised under a future compliance market (e.g. economy-wide scheme for emission targets). It will be important for the scheme to allow for early action in voluntary markets while facilitating the potential transfer of eligible offset activities to any future economy-wide scheme.

NAFI would also endorse linking the proposed National Registry with other national registries and schemes in order to promote greater international tradability and access to carbon offset export markets.

Coverage

A broad range of Kyoto compliant and non-Kyoto land sector abatement activities may be recognised under the CFI.

NAFI notes the broad inclusion of land sector activities, particularly those relating to forestry activities:

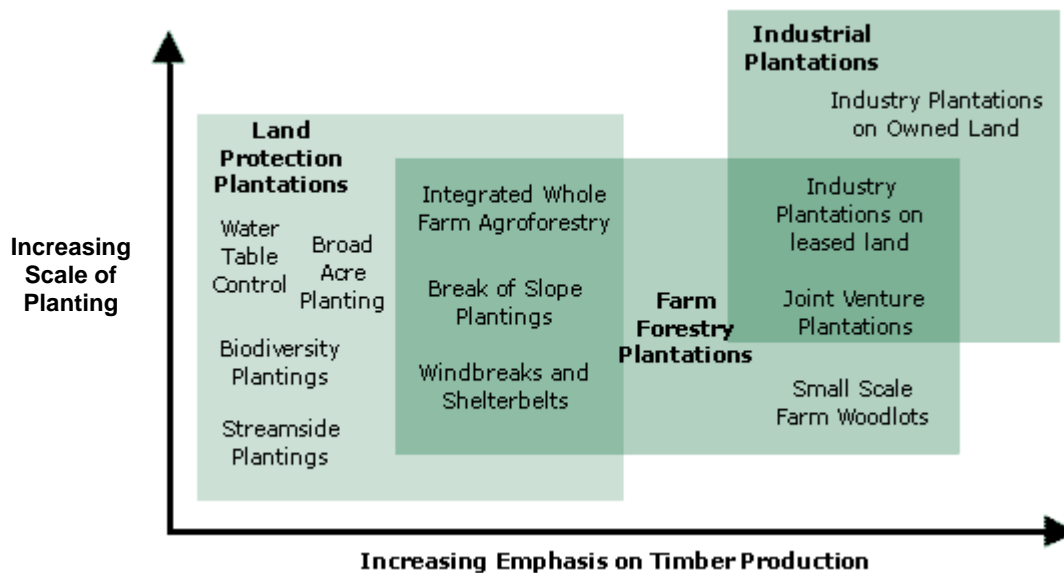
- planted forests for harvest (e.g. timber plantations), including the role of harvested wood products;
- not for harvest planted forests (e.g. environmental plantings);
- carbon stock improvements in managed natural forests;
- avoided deforestation; and
- agroforestry.

However, NAFI has a particular concern in relation to the activity – avoided deforestation. NAFI notes the definition of deforestation in the Exposure Draft Carbon Credits (Carbon Farming Initiative) Bill 2011 and the commentary on avoided deforestation in Section 7.2 of the Consultation Paper. NAFI would like clarification

in the definition and CFI scheme that harvesting activities that are part of sustainable forest management do not meet the definition of ‘deforestation’, as these forests are regrown on a renewable basis and the associated carbon stocks are replenished.

NAFI also notes that the permanent clearing of forests to ‘unforested land’ in Australia, such as for urbanisation or agriculture, is now regulated in all states. NAFI suggests that avoided deforestation activities only be recognised under the CFI where the counterfactual (i.e. intention to permanently clear forest) is clearly verifiable, such as where appropriate regulations and permits for the ‘deforestation’ activity have been obtained.

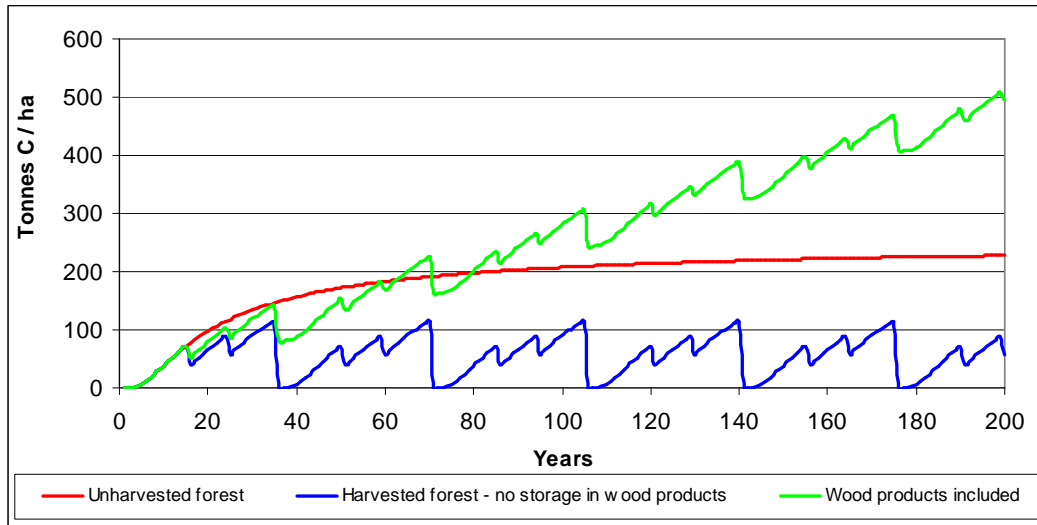
It is important to acknowledge there is a continuum of tree planting and forestry activities across the landscape at a range of scales and tree densities (figure 2). These activities may be undertaken for a range of production and environmental purposes, such as salinity mitigation and riparian plantings through to farm woodlots and plantations used primarily for wood production.



The CFI generally recognises the broad range of forestry and tree planting activities potentially eligible under the scheme. However, the DCCEE consultation paper does not explicitly comment on the status of harvested wood products under the scheme. Recently, there has been greater recognition of harvested wood products in reporting practices and proposed national level methodologies under the United Nations Convention on Climate Change and Kyoto Protocol.

The life cycle of carbon storage in harvested wood products should therefore be included as a direct component of forestry activities, given the relatively long periods of carbon storage in product use and disposal and contribution to overall carbon stocks (figure 3). This should also extend to the use of biomass from wood harvesting or processing activities for bioenergy as a direct component of forestry activities. The industry has identified that the use of biomass from existing activities (without harvesting an extra tree) could potentially offset the equivalent of 3 million tonnes of CO₂-e per year.

Figure 3: Carbon storage in harvested and unharvested forests



Source: Forest and Wood Products Research and Development Corporation (2006). *Forests, Wood and Australia's Carbon Balance*.

NAFI also notes the consultation paper commentary on native forests in Section 6: Regional communities, water, and biodiversity (paragraph 5). This paragraph is misleading and exceptionally narrow with respect to its treatment of native forest management activities and requires a significant revision. Furthermore, the key principle in recognising products from any forest or plantation for the CFI should be to simply ensure they are from legally sanctioned sustainably managed forests or plantations.

General assessment framework and methods

The CFI proposes to assess projects subject to agreed standards and methods, to be developed by the Department in collaboration with industry as well as private project developers. These methods are to be assessed by an independent expert panel known as the Domestic Offsets Integrity Committee (DOIC). Over time, it is anticipated that a list of approved CFI methods (for distinct abatement activities) would be available with proponents able to use approved methods or submit a new method proposal.

Rather than proscribe a 'one size fits all approach', the case by case nature of the scheme has merit in terms of its flexibility for accommodating a broad range of activities and options for new methods. Importantly, the assessment process must allow those activities that can be more readily measured and reported now (e.g. carbon sink tree plantings) to access the scheme using agreed methods, as well as provide for improved or new methods for activities as they become available. For example, soil accounting and measurement systems in agriculture may not be as well developed as for forestry and tree carbon abatement (e.g. through the national carbon accounts and internationally agreed methodologies.)

The protection of intellectual property rights regarding verifiable methods from industry and/or project developers will also be essential to encourage participation in the scheme and private sector innovation.

Integrity standards

NAFI acknowledges the need for robust and transparent accounting and measurement standards for offset projects, to promote the environmental integrity of the scheme and market acceptance in both domestic and international voluntary markets. A number of integrity standards are proposed in the DCCEE consultation paper. These are:

- additional;
- permanent;
- accounting for leakage;
- measurable and auditable;
- conservative;
- internationally consistent; and
- supported by peer-reviewed science.

NAFI would broadly endorse such a set of standards. However, the proposed guidelines for interpreting and applying a number of these standards are problematic and will require a significant amount of clarification and further work in order to be effective and promote voluntary uptake.

Additional

NAFI is disappointed to see additionality re-emerge as a policy issue in the development of CFI policy, particularly given the considerable work that was done on the practicality or impracticality of the test in the development of the CPRS. It is noted that under the proposed CPRS, reforestation credits recognised under the scheme could have potentially been traded in future ‘international’ markets but did not have to meet an additionality test.

NAFI’s preference is to have the additionality test removed for Kyoto compliant forestry activities, consistent with the outcome obtained under the CPRS.

NAFI therefore has a number of significant concerns regarding the proposed implementation of the ‘additional’ standard.

First, there will be a broad range of forestry and tree planting activities on a range of sites with varying productivity levels and combinations of market (e.g. wood, carbon) and non-market (e.g. water quality, biodiversity, shelter for stock) goods and services. Determining whether a marginal project becomes viable with carbon credits will depend on a broad range of factors, including site productivity, degree of risk, access to capital, returns from alternative investments and extent of joint production and multi-products (i.e. income sources) for each particular project.

For these reasons, the ‘additional test’ is likely to be costly and time consuming for many types of forestry projects and would involve considerable uncertainty, given the assessment of projects would be undertaken by the scheme administrator on a case by case basis.

The additional standard states that a project must result in abatement ‘that would not have occurred in the absence of expected returns from the sale of CFI credits’ (i.e. additional to business as usual) or ‘there are other barriers that prevent the activities from occurring, such as access to finance or technology, skills or knowledge gaps’.

The consultation paper goes on to suggest a ‘positive list’ for agreed activities that clearly do not result in ‘material increases in agricultural productivity or business profitability’. Activities that could be included on such a list include not-for harvest carbon sink forests, on-farm tree planting or capture and flaring of methane from livestock manure or landfill facilities’.

While NAFI has identified number of key issues with respect to the proposed additionality test, if such a test is considered essential for ‘international consistency’ it is suggested that not-for-harvest carbon sinks would be an obvious category for inclusion on the ‘positive list’ as well as forestry projects that meet Kyoto compliant requirements, consistent with the National Carbon Accounts and the reforestation measures of the earlier proposed CPRS. This would include planted forests established post-1990 on cleared agricultural land that meet the Kyoto forest definition.

Other broad areas that should logically be considered include:

- long rotation commercial sawlog plantations, where the high up-front costs of land and establishment and long waiting period for harvest revenues have discouraged investment since the early 1990s; and
- other commercial plantings (e.g. pulpwood plantations, agroforestry) on a range of less productive or marginal sites.

Permanence

In previous submissions to the Government, particularly on the development of the CPRS, NAFI has outlined its concerns over the nomination of 100+ years as a typical carbon maintenance period for biological carbon stores. This requirement creates financial and practical difficulties that may limit many potential participants under the CFI. NAFI suggests that the scheme designers further consider a number of alternative mechanisms to address this issue. For example, the Government White paper suggested a defined period of 70 years for reforestation projects under the proposed CPRS, while the Kyoto Protocol allows for a number of temporary carbon credits under the Clean Development Mechanism.

National carbon accounting system

Under the integrity standards, ‘estimation methods must be consistent with (not necessarily the same as) the National Greenhouse Accounts, where relevant, and internationally agreed methodologies and reporting practices adopted by the United Nations Framework Convention on Climate Change’.

With regard to forestry bio-sequestration activities, NAFI acknowledges the significant amount of domestic and international work under the Convention on forest

carbon measurement and accounting protocols. For example, the Australian Government has developed the National Carbon Accounting System (NCAS) as an internationally recognised system for land and forest based carbon accounting, including development of the National Carbon Accounting Toolbox (NCAT) as a tool to assist local projects. Given this previous work, it is likely that the NCAS and NCAT tools will be relied upon in the initial development of agreed methods and standards for forestry measures under the CFI.

However, it is generally acknowledged that NCAT does not adequately measure or address some management regimes or tree species, such as oil mallees, mixed species plantings and other low rainfall species. Previous consultations with industry regarding the proposed use of NCAT for reforestation projects under the CPRS revealed that NCAT may under-estimate tree carbon sequestration for some specific sites by up to 30 per cent.

It is therefore important that proposed technical work by the DCCEE to expand the range of species and enhance NCAT be undertaken as soon as possible, as well as for scheme recognition of other verifiable methods where relevant. This includes:

- a) better calibration of the NCAT model at regional and local scales that are more reliable for individual reforestation projects; and
- b) accreditation of other carbon estimation models that are better predictors for individual reforestation projects, taking into account the need to recognise any intellectual property interests.

This latter option should be able to be accommodated under the methods assessment process, where they can be scientifically validated. Whether this requires 'peer review' in all cases is highly questionable, where for example, standard statistical measurement and monitoring tools may be employed.

Crediting

With regard to crediting, the NAFI position would be to allow for two broad approaches as previously identified in the 2008 Department of Climate Change discussion paper on reforestation design issues: full annual crediting and average crediting based on projected net removals.

This would allow the flexibility for project proponents to make a choice between approaches to meet their own risk and forest management profiles. While the averaging approach may suit small scale growers with limited ability to manage inter-year fluctuations, larger scale growers or projects based on carbon pooling arrangements may prefer full crediting to balance growth and removals according to their own risk profiles and the marginal costs and benefits of carbon prices. For either crediting approach, the relinquishment provisions and forest maintenance obligations of the scheme would adequately address issues of non-compliance or risks from forests removed by fire or other natural disturbances.

This would facilitate greater participation of reforestation activities from small forest growers through to larger forest entities.

Risk of reversal buffer

Previously, NAFI raised industry concerns regarding the proposed use of a risk of reversal buffer at an unspecified level for reforestation projects under the CPRS. In this case, the forest industry was concerned that if a buffer was set too conservatively, it would have reduced the amount of net removals recognised from reforestation and inhibited participation in the scheme.

Under the CFI, a similar risk of reversal buffer is being proposed:

‘to insure the scheme against losses of carbon in the period whilst carbon stores are being re-established following bushfire, drought, disease and pest attack, and against deliberate wrong-doing which has not otherwise been addressed under the scheme’.

A uniform 5% risk of reversal buffer is now being put forward for all bio-sequestration projects. This represents an improvement from the previously unspecified buffer in the CPRS scheme.

However, the proposed use of a risk reversal buffer in conjunction with other risk management safeguards (e.g. use of conservative data and assumptions) still raises the issue of the most appropriate choice of mechanism(s) for effectively managing the risks associated with the overall scheme and individual projects.

It is important to recognise that other provisions provide general safeguards to the overall integrity of the scheme. These provisions include the registration of suitable entities, relinquishment provisions and related forest maintenance obligations, designed to address issues of non-compliance and unplanned emissions from natural disturbances such as fires.

Forest managers will typically adopt a range of risk management strategies, such as:

- selection of appropriate species and provenances that can better cope with climatic stress and fire;
- geographic spread of plantings and areas;
- pooling of different forest types and age classes; and
- planning for fire prevention and suppression (e.g. fuel reduction, firebreaks, equipment maintenance).

NAFI has concerns that under the proposed design rules the regulator is assuming scheme-wide responsibility for all individual project risks. Such a structure may lead to a number of distortions, whereby:

- the regulator is effectively acting as sole insurer for carbon losses from natural disturbances; crowding out private insurance markets and any potential benefits (lower costs) from the operation of a more competitive model for the treatment of risk across projects and sites; and
- inequity in assessing project level risks, through the use of a uniform buffer of 5% for all projects regardless of actual risk profiles.

Further consultation is therefore needed on the treatment of risk in the scheme, given the potential role of private insurance markets to reduce costs and deal more specifically with project level risks. Over time, it is expected that more developed insurance markets would emerge in response to carbon sequestration projects under the scheme.

Regional communities, water, biodiversity

By their very nature, natural and planted forests are complex biological systems and possess a number of characteristics that may make them unique from some other land uses and production activities. These characteristics include the multi-functionality of planted forests beyond commercial wood benefits, including ecosystem services and functions such as carbon sequestration, provision of recreation opportunities, rehabilitation of degraded landscapes, soil and water conservation and enhanced biodiversity. Many of these benefits cannot be fully captured in a market system by the private investor. This can result in significant under-investment in the sector without public assistance or market mechanisms such as the proposed CFI for carbon benefits.

NAFI reiterates its concerns over the simplistic and misleading DCCEE commentary on native forest activities (previously outlined in the section on Coverage above). The sustainable management of Australia's forests is highly regulated and involves a diversity of harvesting activities and management regimes to maintain a broad range of economic and environmental values. The sustainable management of forests also provides significant economic and social benefits in rural and regional Australia, including income and employment from primary production through to harvesting, processing and international trade.

With regard to land use planning, NAFI advocates the fair and equitable treatment of forests as a legitimate land use that provides a broad range of economic, social and environmental benefits. Requiring project proponents to comply with all regulatory approvals and requirements from all levels of government should be sufficient to address land use planning issues under the scheme.

Concluding comments

The CFI represents a mechanism to promote new investment in tree planting and forest activities for carbon sequestration, as well as deliver a range of other economic, social and environmental benefits.

If implemented in a practical and cost-effective manner, it can provide much needed certainty and access to domestic voluntary and international markets for the carbon offset sector.

However, a number of important changes are needed if the scheme is to promote wider uptake and investment in commercial forestry projects for joint carbon and wood production, as well as for some not-for-harvest carbon sinks.

These changes would include:

- reducing scheme compliance and transaction costs;
- clarifying the definition and interpretation of deforestation activities;
- improving the guidelines for enhanced carbon stocks from native forests;
- inclusion of harvested wood products and biomass for bioenergy as a component of forestry activities;
- flexibility in carbon crediting approaches;
- removing and/or streamlining the additionality test for forest projects; and
- improving national carbon accounting systems for mixed species and low rainfall forest types.

NAFI is committed to working constructively with the Australian Government and other stakeholders to promote the significant contribution that Australia's renewable and sustainable forest industry can play with respect to climate change policy

If there are any queries in relation to this submission, please contact NAFI Deputy Chief Executive Officer, Mick Stephens on (02) 6285 3833.