



## **SUBMISSION**

### **Senate Standing Committees on Environment and Communications**

### **Carbon Credits (Carbon Farming Initiative) Bill 2011; Carbon Credits (Consequential Amendments) Bill 2011 and Australian National Registry of Emissions Unit**

**April 2011**

#### **Introduction**

The National Association of Forest Industries (NAFI) welcomes the opportunity to comment on the Carbon Credits (Carbon Farming Initiative) Bill 2011 and related consequential bills.

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 members comprise commercial timber and non-wood (e.g. environmental/carbon sink) forest growers, log harvesters and haulers, wood processors and state based forest industry associations.

At the outset, it is important to acknowledge that the forestry and forest products industry can make a significant contribution to land based opportunities and flow-on effects (e.g. use of climate friendly products) for climate change mitigation. These opportunities 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.

However, the lack of a clear climate policy framework for carbon sequestration activities and a future carbon price has created considerable business uncertainty. Most notably, the postponement of the proposed Carbon Pollution Reduction Scheme

(CPRS) – which failed to create a market for reforestation activities – has effectively stalled investment in tree carbon sinks.

The forest industry therefore considers the CFI an important interim measure to provide investment certainty and access to voluntary domestic and international carbon markets, pending the development of a future carbon price mechanism (i.e. domestic compliance market) In this context, it will also be essential that eligible CFI offsets be fully recognised and tradeable under a future carbon pricing mechanism, to promote wider efficiency and demand for low cost abatement options.

However, a number of significant changes are needed if the CFI Bill is to deliver the wider participation of forestry and tree based land sector abatement as part of the CFI scheme and broader carbon price mechanism.

NAFI has previously commented on the Carbon Farming Initiative (CFI) consultation papers prepared by the Department of Climate Change and Energy Efficiency in January 2011 – which outlined a number of key concerns with respect to the treatment of forest activities (refer attached). These issues remain pertinent given a lack of specific detail in the Bills and/or provision for future regulations regarding these aspects.

This submission updates a number of key issues in the context of the current Bill and Explanatory Memorandum, which revolve around:

- complex ‘additionality’ requirements, which may preclude a broad range of commercial forestry projects for joint carbon and wood production outcomes;
- lack of recognition of wood products as a significant carbon pool;
- ambiguity regarding the scope and eligibility of native forest management incorporating periodic timber harvesting; and
- potential distortions to land based options, based on the proposed exclusion of some project types on the ‘negative list’.

### **Additionality**

NAFI is concerned about the complexity and considerable uncertainty of the additionality provisions in the CFI Bill [Part 3, Division 6, clause 41(3)(a)] – which may severely limit wider participation of the wood based industry in climate change solutions, particularly for commercial timber plantations.

In particular, the Explanatory Memorandum states that:

[5.43] The purpose of the additionality test is to ensure that credits are only issued for abatement that would not have normally occurred and, therefore, provides a genuine environmental benefit.

[5.44] The Government’s intention is that this test will enable crediting of activities that improve agricultural productivity or have environmental co-benefits, but which have not been widely adopted.

[5.48] The Minister must consider whether carrying out the project is beyond common practice in the relevant industry or part of an industry, or in the environment in which the project is to be carried out.

[5.51] Common practice is not defined in the legislation. This is to allow for the application of expert judgement as to what constitutes common practice in different environments and industry circumstances. The Government will consult with stakeholders on approaches to identifying common practice and provide further guidance.

NAFI is concerned that additionality remains a complex and restrictive policy issue in the CFI Bill, particularly given previous feedback on the impracticality of the test and significant potential for co-benefits from commercial forestry projects (e.g. joint carbon and wood production, employment, salinity mitigation). It is noted that under the proposed CPRS, reforestation credits under the scheme were recognised without an additionality test - as they were Kyoto compliant and produced genuine abatement.

NAFI's recommendation is to have Kyoto compliant forestry activities formally recognised under the scheme, consistent with the outcome obtained under the CPRS. A simple solution would be to add such activities to the so-called 'positive list' of activities [Part 3, Division 6, clause 41 (1) (b)], given their contribution to abatement and the National Carbon Accounts.

The new 'common practice test' (refer 5.48 above) is also 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.

Determining whether a project is beyond 'common practice' 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.

In many ways, these concerns mirror similar comments made by Professor Garnaut with respect to the earlier proposed 'financial additionality' test contained in the CFI consultation paper (i.e. projects had to demonstrate they were not financially viable without the CFI credits). In responding to this subjective and restrictive requirement, he stated:

Assessing financial additionality is highly subjective. This introduces uncertainty, and opportunities for distortion. It will often be the case that there are multiple motives for changes that sequester carbon. What matters is that the sequestration is new and is real.

There is genuine abatement if emissions are reduced, whatever the motivation of the decisions that caused them. It is recommended that the financial additionality requirements be removed. This would avoid distortions, reduce ambiguities and costs of scheme implementation, and encourage genuine abatement.<sup>1</sup>

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<sup>1</sup> Commonwealth of Australia (2011). Garnaut Climate Change Review - Update 2011. Update Paper four: Transforming rural land use, page 15.

Genuine industry engagement is therefore needed on approaches to identifying common practice [refer 5.51 above] as well as the development of the ‘positive list’ of activities and projects deemed to have met the additionality test.

NAFI would suggest the following classes of projects or activities that should logically be considered for the positive list:

- not-for-harvest carbon sinks (e.g. environmental plantings);
- Kyoto compliant forestry activities;
- 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<sup>2</sup>; and
- other commercial plantings (e.g. pulpwood plantations, agroforestry) on a range of less productive or marginal sites where commercial forestry activities would not normally occur.

### **Lack of recognition of wood products as a carbon pool**

Another significant limitation of the CFI Bill is the lack of recognition of the role of wood products as a long term carbon store (i.e. carbon stock) as part of a renewable timber harvesting and replanting cycle. While the CFI is intended to be broad based in terms of land based abatement options and approaches, it fails to adequately recognise the significant contribution of renewable wood products which are explicitly linked to for-harvest native forests and plantations.

The role of harvested wood products as a long term store of carbon is generally well recognised in the international scientific literature, most notably the International Panel on Climate Change (IPCC), as well as the emerging development of more comprehensive carbon accounting frameworks as part of the United Nations Framework Convention on Climate Change (UNFCCC).

The 4th assessment report of the International Panel on Climate Change (IPCC), clearly acknowledges the significant benefits from sustainable forest harvesting and the role of wood products in climate mitigation:

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.<sup>3</sup>

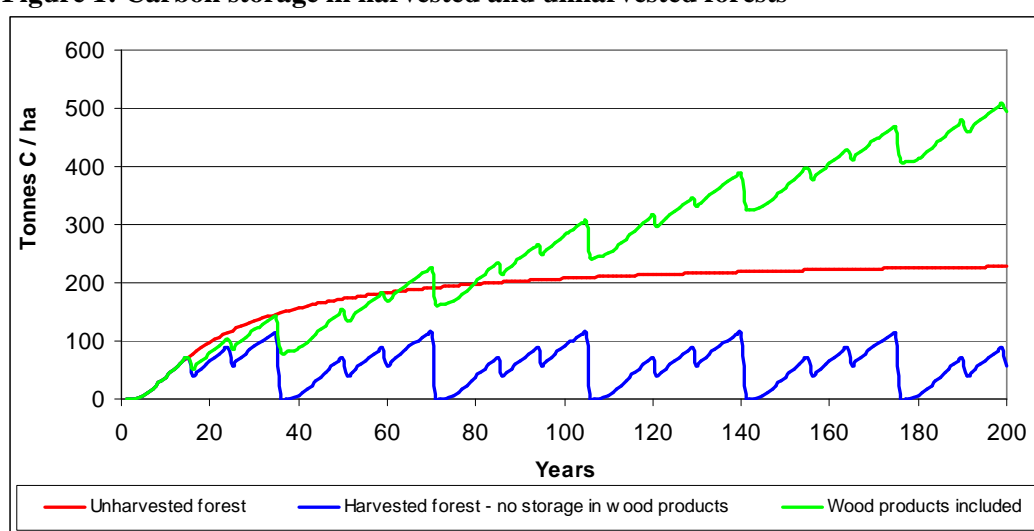
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<sup>2</sup> Forest and Wood Products Australia (2011). Review of Policies and Investment Models to support continued Plantation Investment in Australia. Report prepared by R. de Fegely, M. Stephens and A. Hansard, Project PRA189-1011, March.

<sup>3</sup> International Panel on Climate Change (IPCC) (2007). Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds), Cambridge University Press.

As the following diagram shows for a typical pine plantation in Australia (figure 1), forests that are re-planted after harvest and produce long lived products (e.g. timber framing for houses), continue to store and accumulate carbon long into the future compared to unharvested forests. The net carbon sequestration from recurring tree growth also far outweigh the emissions from producing these products.<sup>4</sup> The life cycle of carbon storage in harvested wood products should therefore be permitted 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. 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 CO<sub>2</sub>-e per year.

**Figure 1: Carbon storage in harvested and unharvested forests**



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

In discussing the international climate change framework and development of carbon accounting approaches, Professor Garnaut made the following comments:

New approaches, including allowing countries to recognise carbon stored in different wood products consumed domestically and exported, were discussed in Cancun (UNFCCC 2010). Australia, appropriately, supports the new approaches.

Australia could advance its interests by itself adopting more comprehensive accounting at an early date.<sup>5</sup>

It is therefore disappointing to see little progress on this issue in the CFI Bill following extensive feedback by industry on the CFI consultation papers and the

<sup>4</sup> Forest and Wood Products Australia (2009). Life Cycle Inventory of Australian Forestry and Wood Products. Report prepared by S.N. Tucker, A. Tharumarajah, B. May, J. England, K. Paul, M.Hall, P. Mitchell, R. Rouwette, S. Seo and M. Syme, Project PNA008-0208.

<sup>5</sup> Commonwealth of Australia (2011). Garnaut Climate Change Review - Update 2011. Update Paper four: Transforming rural land use, pp9-10.

international recognition of the role of wood products as part of a climate change solution.

### **Ambiguity regarding the eligibility of ‘managed’ native forests**

The other main criticism of the CFI Bill is the degree of ambiguity on the extent to which sustainable forest management (SFM) practices in native forests – that is, the renewable management of these forests for timber and other values on a periodic harvesting and replanting cycle – would be broadly permitted and recognised under the scheme.

This ambiguity largely comes about through provisions in the Bill for ‘Native forest protection projects’ and lack of specific reference or delineation of SFM project types that could fall under other such categories as:

- reforestation
- improved management of forests
- enhanced or managed regrowth

The Explanatory Memorandum describes forest protection projects in the following terms:

[1.15] The scheme will cover projects to protect native forests from clearing or clear felling.

Under the ‘Eligibility criteria’ for eligible offset projects, it is further stated that:

[3.26] The project must not involve the clearing of a native forest or the using of material obtained as a result of harvesting or clearing a native forest [*Part 3, Division 2, clause 27(4)(j)*]. It is not intended that this provision preclude projects that involve harvesting bush foods or other uses of the forests that are consistent with keeping forests healthy and intact. The regulations may therefore specify permitted uses of materials obtained as a result of the clearing or harvesting of native forests.

From a forest industry and SFM perspective, the references to ‘clear felling’ in this context are understandably concerning as modified ‘clear felling’ and selective logging practices are routinely conducted in native forests to promote adequate regeneration and regrowth for a range of forest types subject to periodic timber harvesting.

It is therefore essential that the CFI Bill:

- (1) clarify that these restrictions only apply in the context of ‘protected forest’ projects, which are largely designed to avoid deforestation (i.e. permanent removal or clearing of forest); and
- (2) provide explicit recognition of the scope for SFM practices from native forests to be recognised under the scheme for a range of other project types, given its

significant potential to improve forest management and carbon outcomes, particularly for privately owned native forests.

The significant role that SFM (in both plantation and natural forests) can play with respect to carbon sequestration and climate change mitigation is broadly acknowledged by the international scientific and climate policy community (refer above), and is entirely consistent with the broad intent of the Bill where the Explanatory Memorandum states:

[1.3] The scheme covers land sector abatement meaning any land management practices or activities that enhance biosequestration (sequestration) or reduce agricultural emissions could be eligible for ACCUs. The scheme also covers reductions in some waste emissions.

Any unwarranted bias in the scheme toward ‘forest protection’ projects compared to SFM type projects could lead to large perverse outcomes in the longer term, given its generally higher sequestration potential compared to reserved (i.e. unharvested) forests taking into account wood products and other socio-economic and environmental benefits (e.g. employment, enhanced fire fighting capacity).

### **Potential distortions via the ‘negative list’**

NAFI is also concerned that the CFI Bill adopts a pre-emptive approach to the exclusion of some project types that is inconsistent with the broader intent of the scheme and potentially distortionary to land abatement options.

The relevant sections of the Explanatory Memo state that:

[1.25] The Minister may recommend that regulations are made to exclude certain types of sequestration or emissions avoidance projects that would otherwise be eligible for ACCUs under the scheme [Part 3, Division 12, clause 56]. This is known as the ‘negative list’.

[1.29] The Government intends to include on the negative list projects that involve the complete cessation of harvesting in plantations established for harvest; that is, converting harvest plantations into permanent carbon sinks.

[1.31] This would not prevent the replacement of unprofitable harvest plantations with permanent environmental plantings.

NAFI would regard the pre-emptive and blanket exclusion of for-harvest plantations converted to carbon sink plantings as unreasonable and contrary to the integrity standards process for individual projects to be based on their merits. While only speculative at this stage, the conversion of some for-harvest plantations to permanent carbon sinks may well be justified in terms of net sequestration and socio-economic outcomes. The main point here is not to preclude any project types outright, but allow for expert advice on the approval of individual projects and methodologies under the scheme.

Furthermore, there is a plethora of legislative land management and planning requirements and policies, which provide a sound basis for dealing with broader land

management objectives. A ‘negative list’ under the CFI scheme is likely to introduce significant sovereign risk and regulatory duplication.

### **Concluding comments**

The CFI represents a mechanism to allow for 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 – and provide a sound basis for the migration of eligible carbon offsets in a future carbon price mechanism.

However, a number of important changes are needed if the Bill and CFI scheme is to promote wider uptake and investment in forest based abatement, particularly for commercial timber plantations with joint carbon and wood production outcomes.

These changes would include:

- ensuring forestry projects under the CFI are recognised as eligible offsets in any future carbon price mechanism;
- streamlining additionality requirements for forest based projects, most notably through industry guidance on the ‘common practice’ test and the inclusion of classes of forest projects on the ‘positive list’;
- recognising wood products as part of eligible net sequestration and carbon stock changes for forestry projects;
- clarifying the scope for SFM projects in native forests that involve periodic timber harvesting; and
- removing the ‘negative list’ provisions in the Bill, consistent with the broader intent of the scheme to assess each project on its merits and reduce regulatory duplication.

Finally, scheme compliance and transaction costs are expected to be high under the CFI scheme, particularly for small private forest growers. In this regard, we would support the submission by the Australian Forest Growers (AFG) to this Inquiry on the prohibitive and compliance cost aspects of the scheme.

NAFI is committed to working with the Senate Standing Committee to promote the significant contribution that Australia’s renewable and sustainable forest industry can play with respect to climate change policy and would be available to discuss these issues further in the context of the CFI Bill.

### **Attachment**

NAFI (2011), Submission to the DCCEE Consultation Papers on the Carbon Farming Initiative, January.