HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ENVIRONMENT, RECREATION AND THE ARTS

INQUIRY INTO THE REGULATORY ARRANGEMENTS FOR TRADING IN GREENHOUSE GAS EMISSIONS

SUBMISSION BY THE PULP AND PAPER MANUFACTURERS FEDERATION OF AUSTRALIA

The Pulp and Paper Manufacturers Federation of Australia (PPMFA) welcomes the opportunity to provide a submission to this Inquiry.

The PPMFA was established in 1981 and represents the interests of the five major companies which collectively produce 97% of the paper and paper products manufactured in Australia. The industry has fixed capital investments of $3.8 billion; annual sales of $3 billion; directly employs approximately 9,000 people, and has a further impact on the employment of an additional 100,000 people.

The PPMFA is a member of the Australian Industry Greenhouse Network (AIGN) and is a signatory to the submission produced by the AIGN. The purpose of this supplementary submission is to highlight points of particular interest to the pulp and paper industry.

General

The pulp and paper industry is a large energy user. Depending on the site, energy constitutes around 15% of paper production costs, and in some cases is up to 20%. Energy costs are a major factor affecting the international competitiveness of the pulp and paper industry.

The pulp and paper industry is a major player in the development of Australia's sink capacity through the creation of new forested areas. The industry expects to plant an additional 25,000 hectares of plantations during the period 1996-2000.

The pulp and paper industry has demonstrated a strong commitment to improving its greenhouse performance. The PPMFA was one of the original seven signatories to the Greenhouse Challenge program. Of the five major companies in Australia's pulp and paper sector, three have already completed Greenhouse Challenge agreements, with the fourth company's agreement currently being developed.

Issues Concerning Emissions Trading

The PPMFA considers that in discussing the question of emissions trading, a number of key issues need to be addressed:

Is emissions trading necessary?

Australia's domestic policies on greenhouse are driven by our international commitments and obligations, most recently the Kyoto Protocol to the United Nations' Framework Convention on Climate Change.

Under the Kyoto Protocol, Australia's net greenhouse emissions during the period 2008-12 are required to be no greater than 108% of their level in 1990.

On 20 November 1997, the Prime Minister indicated that the Government's latest package of domestic policy measures would result in Australia's net greenhouse emissions in 2010 falling to 118% of their level in 1990.

Subsequently the Australian Government welcomed the Kyoto outcome, particularly Article 3.7, which enables Australia to benefit from the inclusion of variations to our emissions from land use changes and the forestry sector. The PPMFA understands that this is expected to achieve the additional reduction required to decrease Australia's net emissions to 108% of their 1990 levels.

Under these circumstances, where it appears likely that Australia will be able to meet its Kyoto commitments on the basis of policies already implemented or announced, the PPMFA seriously questions the need at this time for the active consideration of any additional policy measures, including emissions trading.

The Industry Commission's research paper *Framework for Greenhouse Emission Trading in Australia* released on 15 December 1997 highlights the wide range of issues that would need to be considered and resolved in relation to domestic emissions trading. There is clearly a large amount of essential preliminary work that would need to be undertaken, particularly in such fundamental areas as carbon accounting, before any domestic emissions trading scheme could be successfully introduced.

The PPMFA considers that such preliminary work will take a number of years to complete. Therefore the question of whether a domestic emissions trading scheme is either feasible or desirable is something that can only be fully addressed at a later time period, well into the next decade. At that time there would be much better information available on:

- Whether the Kyoto Protocol has actually entered into force (given the difficulties of obtaining the ratification of the USA, this is by no means a foregone conclusion).

- Whether Australia remains on track to meet its Kyoto commitments on the basis of existing policies and measures.

- Whether climate science has produced more definitive conclusions concerning the extent of the greenhouse effect and its impact on weather patterns.

- Whether more stringent emissions reduction obligations are likely in the post-2012 period.

- The efficacy or otherwise of domestic trading schemes that may have been trialed in other countries.

- Whether international emissions trading is likely to become a reality, and if so, its relationship to any potential domestic scheme.

- Effective methods of carbon accounting.

Is emissions trading better than other forms of regulation?

If there is an eventual need for additional "regrets" policies (ones that impose additional costs for the primary purpose of reducing greenhouse emissions), the PPMFA would prefer market-based mechanisms to ones involving increased forms of government intervention and regulation.

In this context, and at a theoretical level, emissions trading schemes have some potential advantages over other market-based mechanisms such as carbon and energy taxes. However given the high degree of inherent complexity of any greenhouse gas emissions trading regime, it is essential that such a scheme operate as a genuine market mechanism, and have a minimal level of government regulation.

Effects on Australia's international competitiveness

The Framework Convention on Climate Change, and its Kyoto Protocol, divides the countries of the world into two main categories: those which have emissions reduction obligations and those which don't. Australia is in the former category, but many of its competitors are in the latter category. The Australian pulp and paper industry is already under strong competitive pressure from countries such as Indonesia and Korea which are not required to take any action whatsoever to reduce their greenhouse emissions.

It is therefore essential that any domestic emissions trading regime is constructed in a manner that minimises any increase to the input costs of Australian industry. It must also operate in a manner that would not have any negative impact on the Government's commitment to achieving average economic growth rates of 4% p.a. over the next decade.

Comprehensiveness

A domestic emissions trading system must reflect the comprehensive approach, and cover all greenhouse gases, and sources as well as sinks. It should allow companies the option of offsetting their emissions through sink creation activities, carried out either by the companies themselves, or under contract by third parties.

Cost effectiveness

To operate effectively as a market mechanism, a domestic emissions trading system must be cost effective and have the lowest possible compliance costs. Ideally it should be operated by an existing market institution such as a stock exchange or futures exchange.

Carbon accounting

A fundamental building block, without which no domestic emissions trading system can operate successfully, is an accurate and agreed system of carbon accounting. The Government's November 1997 package of greenhouse measures allocated $12.5 million to establish a national carbon accounting system. This work has yet to commence, but is expected to get underway now the Australian Greenhouse Office has been established. The PPMFA has expressed a strong interest in contributing to this work.