

Epic Energy Corporate
Shared Services Pty Limited
ACN 069 799 588
Level 7 GHD House
239 Adelaide Terrace
Perth WA 6000
PO Box 6470 East Perth WA 6892
Telephone (08) 9492 3800
Facsimile (08) 9492 3888
Web Site www.epicenergy.com.au

Our Ref: 4.26kyoto
Your Ref: inquiryintokyotoprotocol

22 September 2000

Mr G Harrison
The Secretary
Joint Standing Committee on Treaties
Parliament House
Canberra ACT 2600

Dear Mr Harrison

Re: Inquiry into the Kyoto Protocol

Further to the advertisement in *'The West Australian'* of 15th July 2000, we wish to comment on various aspects of the Kyoto Protocol.

Summary of the main points covered by this submission

Our comments relate to a selection of the points outlined in the terms of reference, namely :

- Definitions and criteria – anthropogenic emissions, forest, afforestation, deforestation and reforestation, sinks, carbon credits/emissions trading, clean development mechanism and joint implementation

Submission

1.0 Definitions and criteria

1.1 Anthropogenic emissions

Article 3.3 of the Kyoto Protocol refers to “human induced land-use change and forestry activities”. We require a clear explanation of what the UNFCCC considered to be “human induced” as it would currently seem to exclude a tree’s own seeding.

1.2 Forest

Some countries eg the United States (refer to the US submission on land-use, land-use change and forestry, 1 August 2000) use the Food and Agriculture Organisation (of the United Nations)' definition of forests . This definition is based on commercial forestry systems and is not entirely suitable for Australia's forest systems. We would suggest that Australia needs a broader definition of forest that would probably need to include:

- types/nature of vegetation
- ratio of canopy cover to land area
- minimum land area
- height & stem numbers of trees or woody vegetation.

1.3 Afforestation, deforestation and reforestation

These terms are referred to in article 3.3 of Kyoto and need to be defined. For example, afforestation can occur by direct planting, aerial seeding, burning to promote seed germination and regeneration and still meet the test of "human induced".

1.4 Sinks

Only specified sinks are included under article 3.3 of the Protocol ie "sinks resulting from direct human- induced , land-use change and forestry activities, limited to afforestation, reforestation and deforestation since 1990...shall be used to meet the commitments under this Article of each Party ."

Article 3.4 of the Protocol provides a process for adopting additional human-induced activities within the agricultural soils and land-use change and forestry categories which would contribute in achieving targets under the Kyoto Protocol. We require clarification as to how and which activities will be included under article 3.4. Also, are the activities intended to cover a broad (count net effect of all practices on a piece of land)or narrow (say a single activity) base?

1.5 Carbon credits/emissions trading

Article 17 of the Kyoto Protocol allows developed countries to participate in emissions trading for the purposes of meeting their assigned amounts.

Our main concerns here are:

- the criteria for determining permit allocation and acquittal responsibilities
- the need to ensure that emitters taking early abatement action eg Bush for Greenhouse and Greenhouse Challenge are not disadvantaged under any future emissions trading arrangement
- need to analyse the various allocation and design options
- the Australian Greenhouse Office paper "*Designing the Market*" indicates an apparent preference for a "cap-and-trade" system. This is a system in which emissions trading is defined as the facility for participants to buy or sell allowances given up to a capped level rather than credits obtained by reducing emissions below a set target. This raises various other issues – eg is this a property right? Will the government be able to rescind the allowances?
- the definition of the emission trading instrument. For example, under article 6 of (joint implementation) and article 17 (emissions trading) of the Kyoto Protocol, the instrument to be traded between the countries is called an "emission reduction unit". Under article 12 (clean development mechanism) of the Kyoto Protocol is called a "certified emission reduction". None of these terms are further defined in the Protocol.

- The Australian Greenhouse Office has analysed the Protocol (refer to the Australian Greenhouse Office's *National Emissions Trading – designing the market* – discussion paper 4, 43) and come to the conclusion that there are five possible sources for emission trading instruments: assigned amount units (as issued by the Australian Commonwealth government from its emission commitment under the Kyoto Protocol), carbon credits (issued by the Commonwealth Government to owners of the rights to sequestered carbon), assigned amount units issued by another country and acquired by companies operating in Australia, emission reduction units (JI) and certified emissions reductions (CDM). The Australian Greenhouse Office has proposed that all of these instruments would be treated as an emission permit. Deeming all emission trading instruments to be emission permits irrespective of source (domestic or international), nature (JI or CDM) or type (carbon credits or emission reduction units) would seem to make emissions trading simple but doesn't take into account any possible legal differences between emission trading instruments backed by carbon credits and instruments backed by emission reduction units. For example, in 1998, NSW enacted legislation (*Carbon Rights Legislation Amendment Act 1998*) legislation to create a carbon sequestration right under which a person could hold the right separately from either the right to the trees (a general forestry right) or the ownership of the land upon which the trees were located. The legislation provides that the carbon sequestration right could be registered on title. This right is deemed to carry the same attributes as a common law property right. How will this legislation sit with the Australian Greenhouse Office's proposal?

1.6 Clean development mechanism

Article 12 of the Kyoto Protocol provides for the Clean Development Mechanism whereby developed countries are able to invest in emissions reducing projects in developing countries to obtain credits to help in meeting their assigned amounts.

The details of the Clean Development Mechanism still need to be clarified eg how CDM's are to be designed and operated.

We would also suggest that sinks should be included in the CDM as they would allow for a bigger range of projects to be implemented in a larger number of countries eg Africa, Latin America and Asia would offer good potential for sink projects, especially in the forestry sector than would be the case if the CDM is restricted to projects in energy and industry sectors.

If sinks were included in the CDM, there would need to be clarification of such matters as measurement, setting baselines and the requirement that the emissions reductions related to the project be additional to any that would occur in the absence of the project activity.

1.7 Joint implementation

Article 6 of the Kyoto Protocol permits Joint Implementation whereby developed countries are able to invest in projects in other developed countries to acquire credits to assist in meeting their assigned amounts.

Sink activity projects are included in Article 6 – we believe that the rules for making joint implementation projects operational still need to be developed.

Should you have any queries concerning our submission or wish to correspond with us, my contact details are:

Mr David Williams
General Manager, Corporate Services and General Counsel

OR

Ms Sara Inglis-Dawson
Risk Management Coordinator

At:

Epic Energy
7th floor
GHD House
239 Adelaide Terrace
Perth WA 6000

Ph (08)9492 3823

Yours sincerely,

David Williams

