

SUBMISSION No. 119
Inquiry into the Australian forestry industry



HOUSE OF REPRESENTATIVE STANDING COMMITTEE ON AGRICULTURE, RESOURCES, FISHERIES
AND FORESTRY

INQUIRY INTO THE AUSTRALIAN FORESTRY INDUSTRY

SUPPLEMENTARY SUBMISSION

September 2011

Native forest biomass eligibility under the RET scheme

AFPA was formed by the merging of the Australian Plantation Products and Paper Industry Council (A3P) and the National Association of Forest Industries (NAFI). NAFI and A3P had long histories of contributing to policy development over many years, which AFPA will continue on behalf of the Australian forestry, wood and paper products industry.

Following initial (NAFI/A3P) submissions to the HOR Forest Industry Inquiry a significant development has occurred with respect to the treatment of native forest biomass for renewable energy certificates under the Renewable Energy Target (RET) Scheme.

The Government recently announced the total exclusion of any native forest sourced biomass for renewable energy certificates under the RET as part of the Clean Energy Future Package.

AFPA is deeply concerned about the implications of this decision as such a policy reversal is not only inconsistent with the international science of the carbon neutrality of biomass - it places local wood based businesses at a competitive disadvantage compared with other renewable energy sources in Australia and with many overseas suppliers who have favourable bioenergy incentives. This is particularly the case in Europe where wood biomass represents a high proportion of total renewable energy. The RECs provide an additional market incentive for the use of wood biomass for renewable energy in Australia.

The implications of such a policy would disadvantage native forest growers and managers (both private and public), any processors wishing to utilise native forest wood residues for bioenergy and other renewable energy facilities and producers which rely on such a feedstock.

AFPA has been advised by members and other organisations such as the Port Macquarie Hastings Council Forests Taskforce, of which AFPA is a member, that this is already having an impact on planned and future investment in renewable energy projects in Australia using native forest wood biomass.

We would therefore like to bring this issue to the attention of the Committee in its consideration of complementary climate change policies and the removal of impediments to the development of an efficient and internationally competitive forest, wood and paper products industry.

AFPA has raised this issue as part of its broader submission to the Government on the Clean Energy Future Plan (refer Page 5 of attached submission). Please do not hesitate to contact AFPA should you need any additional information.

Attachments:

Explicit exclusion provision of the Clean Energy Future Package

AFPA Submission on the Clean Energy Future Package, August 2010

Table 7: Land sector measures (continued)

Program / measure	Description	Funding
Carbon Farming Skills	<p>The ongoing Carbon Farming Skills initiative will ensure that landholders have access to credible, high quality advice and carbon services.</p> <p>This measure will fund:</p> <ul style="list-style-type: none"> • development of a new nationally accredited qualification for carbon service providers; • accreditation of carbon brokers and aggregators operating in the Carbon Farming Initiative; and • information workshops for farm extension officers, catchment authorities and rural service providers about carbon farming. 	\$4 million over five years from 2011-12
Land Sector Carbon and Biodiversity Board	<p>The independent Land Sector Carbon and Biodiversity Board will provide advice on the implementation of land sector measures.</p> <p>The Land Sector Carbon and Biodiversity Board will:</p> <ul style="list-style-type: none"> • report annually to Parliament about progress of land sector and biodiversity measures; • advise the relevant Minister(s) on the implementation of the land sector measures; • advise on the coordination of research to reduce duplication across the research community, target gaps and enhance the independence of research advice to government; and • advise on key performance indicators for land sector measures. <p>The Board will advise on the guidelines for the priorities, streaming of funding and criteria for funding the Biodiversity Fund. The Government will table these guidelines in Parliament and respond to any issues raised by the Board in the formulation of the guidelines. The Board will play a key oversight and review role in ensuring the Biodiversity Fund is well targeted and maximises the opportunities available. Individual funding decisions will take into account the advice on the merits of each proposal and consistency with funding guidelines from the board and any relevant technical committees which the Board establishes. The Board will be established permanently under legislation through statutory appointments.</p>	\$4 million over six years from 2011-12
Native forest wood waste under the Renewable Energy Target	<p>The Renewable Energy Target regulations will be amended to exclude biomass from native forest as an eligible renewable energy resource. This includes products, by-products and waste associated with or produced from clearing or harvesting of native forests, subject to appropriate transitional arrangements for existing accredited power stations.</p>	Nil

Greg



SUBMISSION ON THE CLEAN ENERGY LEGISLATIVE PACKAGE

August 2011

Introduction

The Australian Forest Products Association (AFPA) appreciates the opportunity to comment on the draft Clean Energy Legislative Package (CELP) noting that the package includes four main bills:

- The Clean Energy Bill 2011 (which sets up the carbon price mechanism);
- The Clean Energy Regulator Bill 2011 (which establishes a regulatory body to administer the mechanism);
- The Climate Change Authority Bill 2011 (which establishes a new Authority to advise the government on the future design of the carbon price mechanism) and
- The Clean Energy (Consequential Amendments) Bill 2011.

AFPA was formed by the merging of the Australian Plantation Products and Paper Industry Council (A3P) and the National Association of Forest Industries (NAFI). NAFI and A3P had long histories of contributing to climate change policy development over many years, which AFPA will continue on behalf of the Australian forestry, wood and paper products industry.

As the only carbon-positive sector of the Australian economy, a mechanism to establish a carbon price should provide a competitive advantage to the forest, wood and paper products industry. However in a world where this industry's major competitors are not faced with a carbon cost, the mechanism must ensure competitiveness is not lost because Australian manufacturers face costs that are absent in other countries. In the forest, wood and paper products industry this would have especially perverse impacts because carbon sequestration in commercial timber forests relies on demand from wood processors, pulp and paper and panel

board manufacturers. Without markets for saw- and pulp logs, the forest estate would diminish, valuable carbon sequestration opportunities would be lost, highly skilled jobs in rural and regional Australia would move overseas, and our demand for wood and paper products would be filled with imports that do not include a market signal for carbon and may not have originated from forests managed to the same environmental standards as in Australia. Furthermore, the significant use of renewable energy that takes place in wood and paper processing facilities would be lost.

With an inferior architecture, a carbon pricing mechanism would be an enormous risk for the Australian forest, wood and paper products industry, the Australian economy and the global effort to reduce emissions. Domestic emissions reductions would come at the expense of reduced economic activity, harmful impacts in regional communities, and an increase in imports of wood and paper products. At best, global emissions would remain unchanged as Australia's demand is met by increased production in other countries; at worst, emissions would actually rise.

However, with a well-designed carbon pricing mechanism, the forest, wood and paper products industry would thrive while contributing valuable abatement to Australia – through carbon sequestration in growing forests, carbon storage in long-lived wood products, the substitution effect of wood in place of more emissions-intensive alternatives like steel and concrete in the construction market, and increased innovation to reduce the emissions intensity of industrial processes that produce paper and engineered wood products.

In taking this opportunity to make a submission, AFPA notes that this consultation is primarily aimed at the detail contained in the legislative package and the extent to which it will or will not implement the Australia Government's Climate Change Action as set out in the documentation released on 10 July 2011. Any comment by AFPA on the detail of the legislation should not be interpreted as an acceptance of the wider policy construct. AFPA's earlier submission on the carbon pricing mechanism including links with the Carbon Farming Initiative (May 2011) sets out a number of fundamental policy concerns and the majority of these concerns continue in the context of the CELP.

Jobs and Competitiveness Program

The Australian Industry Greenhouse Network (AIGN) and its members (including AFPA) have devoted substantial effort to considering the detail of the Jobs and Competitiveness Program (JCP) and a more detailed submission will be made by AIGN. AFPA is broadly supportive of this submission with respect to views on the JCP.

AFPA notes the detail of the JCP and the provisions it makes to provide assistance to businesses undertaking activities which are deemed to be emissions-intensive and trade-exposed (EITE). With respect to Australia's pulp and paper industry this assistance is entirely justified and appropriate given that the sector's competitors undertaking similar manufacturing activities in other countries do not face a carbon price in any way similar to the CELP proposal. Furthermore, it is highly unlikely that any of these major competitors will face a similar cost in the foreseeable future.

It is also noted that the legislation defers much of the detail of the JCP to regulations that are not yet available for consideration. The Government has committed to providing draft JCP regulations prior to the introduction of the CELP legislative package into the Parliament. However, the final set of these regulations may not be brought before Parliament until the first quarter of 2012, just a few months before the scheme is scheduled to commence.

AFPA's major concern with the JCP as set out in the draft legislation is the lack of an adequate link between the proposed reduction in assistance to businesses conducting EITE activities and similar carbon emissions related costs being incurred by their competitors in other relevant countries.

Notwithstanding the substantial detail set out in the legislation for the Productivity Commission reviews of the JCP and individual trade-exposed activities, there is nothing in the legislation that would stop the Minister introducing regulations almost immediately or at any point in the future that could significantly alter the JCP.

It is proposed that the Productivity Commission will review the JCP three times in five years between 2014 and 2018. This frequency of review is totally impractical and wasteful, as well as representing a major disincentive to investment in relevant activities. The Productivity Commission has the scope to recommend a complete recasting of the JCP scheme that may undermine the business case for any investment in the next five years.

Clause 143 of the draft Clean Energy Bill 2011 sets out the Aims and Objects of the JCP. This clause is therefore very important as it sets the overall constraints of the operation of the program. AFPA considers it essential that this clause makes it clear that the assessments of comparative action in other countries will be undertaken on an activity by activity basis and particularly with respect to key competitor countries for relevant activities. The current wording of Clause 143(f) could lead to a situation where assistance for some or all activities is removed because certain countries have taken action, even if that action does not impose a direct cost on companies undertaking specific activities.

The matters set out in Clauses 156(3) (a) and (b) are of fundamental importance to the successful operation of the JCP and these matters should be given greater prominence and

primacy in the reviews to be undertaken by the PC and the Minister's decisions in relation to the reviews. A large number of other matters have been included in Clause 156 which only serve to cause confusion and thereby increase the risk for investors in EITE activities in Australia.

Other Trade Exposed Industry – Wood Products Manufacturing

The Clean Energy policy proposes a program of unit allocations to EITE industry and grants for some other industry. The proposed program, however, does not fully offset the competitive disadvantage of import and export competing businesses, and losses of jobs and investment will be an inevitable result, in return for an uncertain environmental gain.

Within the coverage of the proposed emissions trading scheme, at around 65% of Australia's emissions, it is estimated that trade-exposed businesses in manufacturing and mining account for around 200 million tonnes of CO₂-e. However, the budget accompanying the Clean Energy plan asserts that just 124 million units will be sufficient to ensure no loss of competitiveness, investment or jobs from these businesses.

AIGN estimates that the result of the CELP is that the Government may impose over \$70 billion in costs on trade-exposed businesses, but is proposing to provide less than \$50 billion in relief.

Much of the wood products manufacturing sector is not likely to be provided with any direct assistance for the increase in costs associated with the Clean Energy Plan. More specifically, the wood panels sector is still in the process of being considered for EITE eligibility under the process, criteria and requirements currently used for Partial Exemption Certificate assistance under the Renewable Energy Target (RET). Other wood products manufacturing including sawmilling and plywood production will almost certainly not receive assistance despite sawntimber and plywood being major internationally traded commodities. Australian imports of these products are increasing and in many cases, rather than facing a carbon cost, Australia's competitors are enjoying a range of subsidies including many related to the production of renewable energy from biomass which are far more generous than those available within Australia.

Timber products are highly trade exposed and moderately emission intensive (EITE metric of ~ 500 tonne CO₂/\$ million revenue). It is estimated that a carbon price of \$25/tonne could result in a financial penalty equivalent to 10% of profit (at an average 10% profit margin on sales). Individual businesses in the wood products industry will be paying hundreds of thousands if not millions of dollars in increased energy costs including for electricity, gas and liquid fuels. These increases come at a time when the industry is least able to accommodate them as a result of

the high value of the Australian dollar and other competitive pressures. There may be opportunities for wood product manufacturers to make investments that would reduce greenhouse gas emissions. However, the costs will be substantial and there will inevitably be lengthy payback periods. In an ironic Catch-22 situation, companies will be less able to finance these investments as a result of the carbon price.

The unexpected and unjustified policy decision taken by the Australian Government as part of the overall Clean Energy Future Scheme to disallow native forest wood waste as an eligible source for creating Renewable Energy Certificates under the RET will further exacerbate this situation; it discriminates against the native forest sector compared to other renewable energy sectors and compared to competing wood producers in other countries.

Coverage

The clauses in Section 30 of the draft *Clean Energy Bill 2011* which endeavour to exclude agricultural emissions from “coverage” or liability under the carbon price are unclear and not comprehensive. The Government’s policy position is that “Agricultural and land sector emission will not be covered” (Appendix A Table 4 p 104 *Securing a Clean Energy Future – the Australian Government’s Climate Change Plan*). Section 30 should simply restate this position rather than endeavouring to cover-off each greenhouse gas and every possible agricultural and land use activity. The situation for gases and agricultural or land use activities which are not specifically mentioned is actually made more unclear by the level of detail that has been included in the draft legislation. There is a simple understanding of agriculture and land sector emissions which includes forestry activities and this has been used in carbon accounting domestically and internationally for many years and should not be revisited by this legislation.

To meet the Government’s policy intent and improve clarity all agricultural and land sector (including forestry) emissions should be clearly and simply excluded from coverage under the carbon price mechanism. This call for accurate implementation of the Government’s policy intent should not be interpreted as support for the policy. The positive contribution which the forest sector can make to greenhouse gas abatement should be being encouraged by appropriate inclusion in a carbon pricing mechanism.

Section 30 should also provide an exclusion of emissions from the combustion of biofuels and biomass consistent with the Government’s stated policy intent (Appendix A Table 4 p 104 *Securing a Clean Energy Future – the Australian Government’s Climate Change Plan*).

Linking to CFI

AFPA (including as A3P and NAFI) has previously expressed serious concerns about various aspects of the proposed operation of the Government's Carbon Farming Initiative (CFI), the legislation for which is currently being debated in the Parliament. AFPA acknowledges that the Government has taken some action to address one of the limitations of the CFI previously identified by AFPA, by providing a mechanism for credits created under the CFI to have some access to the carbon price to be created under the CELP.

However, AFPA's other concerns about the operation of the proposed CFI remain. The objective of the CFI is to encourage land-based abatement through increased carbon storage and emissions avoidance projects. As such it should provide opportunities for all relevant land use activities to contribute to the scheme, including commercial tree plantations and native forests managed for wood production and carbon sequestration. These activities store carbon in the landscape and in the harvested and finished wood products and provide important greenhouse gas mitigation. However, the current design of the CFI provides no clarity on the potential scope for sustainably managed native forest activities (i.e. forests subject to periodic harvesting and regeneration with endemic species) and restricts opportunities for commercial plantation forest growers such that it will be unfeasible for most to participate. Such an approach is contrary to the previously proposed Carbon Pollution Reduction Scheme (CPRS) which recognised for-harvest plantation forests as a voluntary offset activity. This represents a huge missed opportunity for carbon abatement and the promotion of joint economic, social and environmental benefits, particularly in rural and regional Australia

The CFI will obstruct its own objective and miss significant abatement opportunities because:

- it duplicates other areas of the law on policy issues that are unrelated to carbon abatement and should not be regulated via the CFI (e.g. water, fire, natural resource management);
- it restricts opportunities for least cost abatement by failing to recognise a broad range of forestry sequestration activities linked to wood and fibre production, despite international evidence as to their long term carbon mitigation benefits;
- it promotes the importing of credits from overseas at the expense of locally created and potentially cheaper forestry activity created credits that can support local jobs and economic activity; and
- it promotes only a narrow range of eligible forest related activities, particularly through:

- a bias toward ‘forest protection projects’ that will be supported by a \$946 million non-Kyoto Carbon Fund to promote biodiverse tree plantings and avoided deforestation; and
- restricting opportunities for commercial forestry to provide abatement by including key forestry activities in the Negative List.

Furthermore, the proposed Negative List is an arbitrary list that is not underpinned by due process, a legal framework, or a robust scientific framework in its current design.

Despite these facts the Government continues to claim that the CFI will be good for forest growers. The bias against commercial forestry is so apparent that it is consciously misleading of the Government to make such statements.

AFPA notes the recent publication of new modelling undertaken by ABARES for the Australian Treasury (ABARES Special Report - *Abatement potential form reforestation under selected carbon price scenarios, July 2011*) which shows, contrary to earlier modelling, that the CFI will do virtually nothing to encourage real additional carbon sequestration in the commercial timber plantation sector. Given the current nature of the mechanism, AFPA even has serious doubts about the prospects for the long rotation hardwood plantation option – which the ABARES modelling does suggest may expand under the selected carbon price scenarios.

The mechanism for recognition of land sector abatement via the CFI and CELP is totally incompatible with the New Zealand emissions trading scheme which recognises commercial plantation forests, despite both Governments having expressly indicated a desire to make the two schemes consistent and to link them as soon as possible.

A statement by the New Zealand Minister for Climate Change, the Hon Dr Nick Smith, on the performance and outlook of the NZ Emissions Trading Scheme (1 August 2011) included the following conclusions:

“The most encouraging feature of the ETS for Government is in the way it is successfully changing behaviour and reducing emissions. The starkest have been in the forestry and electricity sectors.

Forestry is particularly significant for New Zealand as relatively small changes in levels of afforestation have a dramatic impact on our current and future emissions profiles.

Post the introduction of the ETS we have seen a marked shift.

Every year since the scheme took effect the sector has seen a growth in afforestation and a reduction in deforestation.

The net increase in forest area has grown from a small positive of 500 hectares in 2009, to 4700 in 2010 and forest survey intentions indicate 5700 hectares this year and 7700 hectares in 2012.”

While some of the carbon related forestry activity in New Zealand is in the ‘non-commercial/carbon only’ sector which is likely to be included in the CFI, much is in the commercial forestry sector. This will not be the case in Australia. The emerging disparity in the treatment of carbon in commercial timber plantations may lead to a leakage in new investment in carbon sequestration from Australia to New Zealand.

Despite previous consultations on the indicative positive and negative lists of eligible (or ineligible) activities under the CFI, the concerns of the forest industry have been largely ignored in the preparation of the draft regulations. In their current form, the regulations:

- bias the focus of eligible tree planting activities to permanent mixed species environmental plantings, which may provide only short-term employment opportunities and a limited range of economic, social and carbon mitigation benefits compared to recognising a range of commercial and non-commercial tree planting activities;
- impose additional costs and regulatory duplication through unnecessary land management and water regulation requirements on commercial tree planting activities (i.e. these issues are more appropriately dealt with under other existing NRM laws and water policies);
- impede the most efficient and market based range of land abatement activities, by effectively excluding most commercial forestry opportunities through a greater than 600 mm average annual rainfall exclusion for planting trees in these areas other than for ‘permanent environmental plantings’;
 - it is somehow assumed that ‘permanent environmental plantings’ will use less water than commercial forest plantings in all cases above 600 mm average annual rainfall;
- make unsubstantiated assumptions regarding the additive effects and adverse ‘risks’ of the CFI on commercial tree growing activities and impacts on agricultural land, communities and employment:
 - forestry activities generate substantial positive and ongoing employment and community impacts in rural regions through the growing, processing and marketing of forest products and regional economic multipliers; and

- most commercial forestry activities are unable to compete with high value agricultural land for food production, as recent research has shown that carbon prices would need to be significantly high to have any discernible impact on land use, together with a broad range of technical and other barriers to plantation development.

Least Cost Emissions Reduction

AFPA urges the Government to make every possible effort to ensure that the CELP achieves greenhouse gas emissions reduction at the lowest possible cost to the Australian economy as a whole and to individual businesses.

Nothing in the CELP deals with the already 237 measures identified by the Productivity Commission as imposing costs in addition to the proposed emissions trading scheme, or the proliferation of more overlapping and costly policies at Federal and State level. The failure to address this legislative and regulatory jungle undermines the key rationale for introducing a national emissions trading scheme as provided for by the CELP.

The scope and longevity of deteriorating global economic conditions raises considerable uncertainty about the capability of Australian industry and households to fund emission saving investments to respond to the price signal being created by the CELP. For as long as these circumstances continue to prevail, industry and households will in effect be confronted with a tax that they cannot avoid, thereby limiting the domestic emission reductions that can be effected. The only alternative is the purchase of international units that, while it is necessary to achieve least-cost abatement, nevertheless results in more than \$3 billion per annum of wealth being transferred out of Australia to other countries by 2020.

Draft Climate Change Authority Bill 2011

AFPA considers that there is a distinct lack of clarity, objectivity and accountability in relation to the proposed Biodiversity Fund and the role, composition and operation of the Land Sector Carbon and Biodiversity Board to be established via the *Climate Change Authority Bill, 2011*. The Bill does not provide any constraints or criteria for the allocation of the Biodiversity Fund. Nor does it set out any meaningful eligibility requirements for membership of the Board. This lack of detail means that both the Fund and the Board are likely to be a substantial waste of taxpayer funds and a means for the Government of the day to further its political interests.

Conclusion

The Government needs to fundamentally change its attitude towards the commercial forestry and wood and paper products industry if it truly wants to achieve its stated objective of reducing carbon emissions. This includes managing the potentially perverse outcomes of the costs of compliance and acknowledging forest based activities as being able to generate credits.

It would be irresponsible of the Government to impose additional costs on the wood and paper products sector without introducing a mechanism to ensure no loss of competitiveness of these products in international markets.

It would be equally irresponsible for the Government to ignore the overwhelming body of advice and evidence from international organisations that a healthy forest and wood and paper products sector is one of the best allies in addressing climate change.