



**House of Representatives Standing Committee on Agriculture, Resources,  
Fisheries and Forestry**

**Inquiry into the Australian Forestry Industry**

**Submission by the Department of Climate Change and Energy Efficiency**

**8 April 2011**

---

The Department of Climate Change and Energy Efficiency (DCCEE) welcomes the opportunity to make a submission to the House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry inquiry into the Australian forestry industry.

**Summary**

The DCCEE is responsible for developing and administering policies and programs to address climate change issues, including policies to reduce Australia's greenhouse gas emissions; adapt to climate change that we can't avoid; and help shape a global solution. The forestry sector has already played an important role in helping to manage Australia's greenhouse gas emissions.

Australia's forests are vulnerable to climate change, particularly the effects of increased atmospheric CO<sub>2</sub> concentrations, rising temperatures, changed water availability and increased incidence of bushfires. Natural forest systems have some capacity to adapt to these changes. There is the capacity to improve the resilience of intensively managed forests and plantations through changed silvicultural practices.

On 24 February 2011, the Prime Minister, the Hon Julia Gillard MP, outlined a proposed framework for implementing a carbon price in Australia. This two stage plan for a carbon price mechanism will start with a fixed price scheme for three to five years before transitioning to a fully flexible cap-and-trade emissions trading scheme. The Government proposes that the carbon price commences on 1 July 2012, subject to passage of legislation in 2011.

The carbon price proposal is currently the subject of broad community consultation and debate. The initial proposal indicates that emissions from the land sector such as agriculture and forestry will be excluded from coverage by the proposed carbon price scheme though these sectors are able to participate in the proposed Carbon Farming Initiative.

Notwithstanding this, forest industries are expected to benefit from carbon pricing. Over time, putting a price on carbon could be expected to increase demand for wood products by making more emission-intensive goods and technologies relatively more expensive.

Carbon credits for increases in reforestation could potentially provide an extra boost for forest industries. The Government's Carbon Farming Initiative will enable crediting of eligible abatement that is not covered under the carbon price mechanism. Legislation to establish the Carbon Farming Initiative was introduced to Parliament on 24 March 2011.

The Carbon Farming Initiative will only provide credits for abatement activities that are additional to common business practice. The additionality requirement ensures that credits represent real gains to the atmosphere. Most commercial forestry activities are common practice and occur in the absence of a carbon offsets scheme. These activities are unlikely to be eligible for crediting under the Carbon Farming Initiative. However, forestry activities that are not currently common practice, for example, longer rotation or low rainfall plantations, may be eligible under the scheme.

### **Climate change and the forestry industry**

Climate change is a global problem and domestic action is necessarily framed within an international policy environment. The Kyoto Protocol provides an agreed, consistent framework for countries to measure and report their greenhouse gas emissions. Notwithstanding uncertainty around commitments for the second Kyoto commitment period (post 2012), transparency and a common understanding of emissions data will underpin international action going forward.

The rules of the Kyoto Protocol require Australia to account for the removal of existing forests (deforestation) and the planting of new forests (reforestation). The Kyoto Protocol established national targets for participating countries, relative to their measured emissions in 1990. As such, reforestation is defined as forests established by human activity since 1990 on land that was clear of forest on 31 December 1989.

Forestry has already played a significant role in helping to reduce Australia's national greenhouse gas emissions. For example, projections for the Kyoto Protocol first commitment period (2008-2012) indicate that:

- forestry sequestration resulting from the establishment of new forest plantations since 1990 will contribute 21 Mt CO<sub>2</sub>-e per year on average between 2008 and 2012; and
- emissions from deforestation will be 49 Mt CO<sub>2</sub>-e per year, representing a reduction of 63 per cent or 83 Mt CO<sub>2</sub>-e from the 1990 base<sup>1</sup>.

The Kyoto Protocol also allows countries to voluntarily include some additional land sector activities. The voluntary activities (specified in Article 3.4) are forest management, cropland management,

---

<sup>1</sup> Department of Climate Change and Energy Efficiency, *Australia's emissions projections 2010*.

grazing land management and revegetation. If a country decides to include one of these activities, they become liable for all emissions and sequestration that occurs on those areas of land, whether or not they are within their control. This is because it is difficult to separate emissions caused by human activity and those that are the result of natural events.

The Australia Government decided that the risk of significant emissions from bushfire and drought was too high to allow Australia to elect the voluntary Article 3.4 activities, which means that actions to increase soil carbon or reduce logging in forests that were established before 1990 sit outside the accounting framework for Australia's Kyoto target.

Australia is working to improve the accounting rules for the land sector in the current phase of the Kyoto Protocol negotiations. In particular, Australia and other developed countries are seeking to facilitate broader coverage of mitigation options; facilitate transparency for setting a baseline for accounting for forests into the future; and include effective treatment for those emissions that countries cannot control (such as major bushfires).

The Natural Resource Management Ministerial Council has commissioned an assessment of the vulnerability of Australia's natural forests and plantations to the effects of climate change. This Forest Vulnerability Assessment is being undertaken by the National Climate Change Adaptation Research Facility. Preliminary results indicate that Australian forests are vulnerable to climate change through their exposure to extreme events which include increasing frequency and intensity of fire and because some forest species are at the edge of their climate tolerance. Climate Change will exacerbate existing stressors such as disease, weeds and pests. Forests are highly exposed to climate change impacts because of the long time periods from planting to harvest.

Native forests will change in a number of critical ways including rates of growth (either positive or negative), species composition, and the areas where forest types could occur. These changes can be minimised, at least in the short term, where resources are available for intensive management.

### **The forestry industry and the carbon price mechanism**

On 24 February 2011, the Prime Minister, the Hon Julia Gillard MP, outlined a proposed framework for implementing a carbon price in Australia. This two stage plan for a carbon price mechanism will start with a fixed price scheme for three to five years before transitioning to a fully flexible cap-and-trade emissions trading scheme. The Government proposes that the carbon price commences on 1 July 2012.

The proposed carbon price mechanism could have broad coverage of emissions sources, including stationary energy, transport, industrial processes, fugitive emissions (other than from decommissioned coal mines) and emissions from non-legacy waste.

Emissions from sources covered under the proposed Carbon Farming Initiative, such as agricultural emissions sources, would be excluded from coverage under the carbon pricing mechanism.

Over time, forest industries could be expected to benefit from carbon pricing. This is because a price on carbon will gradually increase demand for wood products by making more emissions-intensive goods and technologies relatively more expensive. For example, demand for building materials could be expected to substitute towards wood products and away from concrete and steel.

These gradual changes in relative prices will drive a structural shift throughout the economy. Growth will slow for emissions-intensive sectors, but will accelerate for low and negative-emission sectors, such as forestry and renewable energy.

The carbon price proposal announced by the Prime Minister, the Hon Julia Gillard MP, on 24 February 2011 noted that “another important matter to be determined is how to maintain and enhance the carbon carrying capacity of the landscape, which would have important sustainability and biodiversity conservation co-benefits. Land use and water issues are also important. Options to provide economic value to activities which store or reduce carbon in the land sector could potentially include the use of Kyoto-compliant credits in the carbon price mechanism or alternative funding arrangements for the land sector.”<sup>2</sup>

The Carbon Farming Initiative is discussed in more detail below.

### **The forestry industry and the Carbon Farming Initiative**

The Government is currently in the process of establishing the Carbon Farming Initiative to provide incentives for land sector abatement. The Carbon Farming Initiative could provide an extra boost for forest industries. It will allow farmers, forest growers and other landholders to generate carbon credits for emissions reductions and carbon sequestration, whether or not they are recognised under the Kyoto Protocol accounting framework. Kyoto-consistent credits could be traded in international carbon markets. Credits that are not Kyoto-consistent could be traded in voluntary carbon markets.

The Carbon Farming Initiative has been designed to provide incentives for new abatement — that is, abatement that is ‘additional’ to common business practice. An activity would be considered additional if it is not common practice for an industry or region and would be unlikely to proceed or continue in the absence of the scheme. The additionality requirement ensures that Carbon Farming Initiative credits represent real gains for the atmosphere.

Most commercial forestry activities are common practice and occur in the absence of a carbon offset scheme. These activities are unlikely to be eligible for crediting under the CFI. However, the Carbon Farming Initiative could provide the forestry industry with opportunities to innovate and build upon activities that are “not common practice” for commercial forestry operations at present.

---

<sup>2</sup> Multi-Party Climate Change Committee, *Carbon Price Mechanism*, 24 February 2011.

For example, the Carbon Farming Initiative could provide the forestry industry with the opportunity to implement integrated forestry models that have been economically unviable under normal commercial realities and potentially incorporate farm forestry design principals and biodiversity values into the enterprise mix. Forest projects opting to participate in the Carbon Farming Initiative will, through the eligibility requirements of the scheme, be able to demonstrate clear environmental services and genuine reductions in greenhouse gases. This potential innovation may assist the sector to remain economically and environmentally sustainable and ensure resilience and diversity in a changing climate.

Voluntary market demand could be augmented by allowing Carbon Farming Initiative credits to be used to offset emission liabilities under the carbon price mechanism. This would increase their value. The Multi Party Committee on Climate Change will consider options to provide incentives for land sector abatement, including the use of Kyoto-compliant credits in the carbon price mechanism.

#### *Additional background on the Carbon Farming Initiative*

Carbon credits represent abatement of greenhouse gases which is achieved by:

- reducing or avoiding emissions, for example, through capture and destruction of methane emissions from landfill or livestock manure; or
- removing carbon from the atmosphere and storing it in soil or trees, for example, by growing a forest or reducing tillage on a farm in a way that increases soil carbon.

Carbon credits can be purchased and used by individuals or companies to cancel out or 'offset' the emissions they generate during their day-to-day life or normal course of business, for example, by consuming electricity or catching a plane. Carbon credits can be used to offset emissions voluntarily or to meet regulatory requirements.

Offset projects established under the Carbon Farming Initiative will need to apply methodologies approved by the Government. These will contain the detailed rules for implementing and monitoring specific abatement activities and generating carbon credits under the scheme. Methodologies can be developed and proposed by private project proponents, as well as government agencies.

The Australian Government is working with industry and other stakeholders, state government officials and technical experts to develop offset methodologies that have broad application. These methodologies are expected to be approved and rolled out progressively from April 2011.

An independent expert committee, the Domestic Offsets Integrity Committee, has been established to assess offset methodologies proposed under the scheme and provide recommendations to the Minister for Climate Change and Energy Efficiency on their approval. The Committee will ensure that methodologies are rigorous and lead to real abatement.

The Government consulted broadly on proposals for design of the scheme, outlined in a consultation paper released on 22 November 2010 by the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP. Legislation to underpin the Carbon Farming Initiative was introduced to Parliament on 24 March 2011.

