AUSTRALIAN FOREST PRODUCTS ASSOCIATION

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23 May 2014

Emissions Reduction Fund Exposure Draft Legislation
Department of the Environment
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**Executive summary of AFPA submission**

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment on the *Carbon Credits (Carbon Farming Initiative) Amendment Bill 2014*.

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forest, wood and paper products.

This submission complements previous submissions by AFPA to the Domestic Offsets Integrity Committee on the Carbon Farming Initiative, as well as more recent submissions to the Department of Environment on the development of the Emissions Reduction Fund including on the Terms of Reference and Green Paper, and submission to the Australian Government on the 19th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change.

AFPA believes that, given the right policy settings, the forest, wood and paper product industry can play an important role in Australia's ongoing mitigation effort.

However, a key impediment for the uptake of emission reduction activities in the draft regulations and policy outlined in the ERF White Paper is the crediting period of up to 15 years and contract period of 5 years. Such a narrow time period for contracts is likely to be insufficient to encourage uptake of long-term abatement opportunities such as forest sequestration which have slow initial growth but higher longer term abatement.

It is also fundamentally important that the proposed amendments do not directly contribute to perverse incentives with adverse economic, social and environmental impacts, as is the case with the proposed regulations for 'avoided native forest harvesting' activity.

In this case, AFPA argues that the activity of 'avoided native forest harvest' should be repealed in its entirety from the legislation, as it is not relevant and effectively ignores:

- its potential to directly cause significantly adverse economic and social outcomes through reduced wood processing and economic activity (particularly in regional areas); and
- the scientific literature showing the better long term carbon abatement benefits from harvesting sustainably managed native forests (i.e. compared to reducing harvest levels).

Furthermore, AFPA supports a number of revisions, which should help promote the uptake of relevant afforestation and reforestation projects, including:

- the renaming of the independent expert committee to the Emissions Reduction Assurance Committee and the broadening of its function to include appropriate expertise across a range of sectors and disciplines, although appropriate conflict of interest measures should be included in the new legislation;
- better clarification of the additionality requirements through a removal of the rigid common practice test and revision of the definition to 'unlikely to occur in the ordinary course of events';
- the removal of barriers to project aggregation;
- the removal of the requirement that the proponent must indicate whether the project is consistent with relevant Natural Resource Management (NRM) plans, as this duplicates regulation through other legislative processes;
- the removal of the constraint on registering projects involving harvesting or clearing of native forests, given the important contribution sustainably managed forests and harvested wood products can make to abatement;
- the removal of the distinction between Kyoto and non-Kyoto projects and credits;

- Ministerial consideration of adverse environmental, social and economic impacts arising from proposed methods and activities;
- the proposed streamlined process for developing methodologies, with a standard public consultation period of 28 days, and options for a short consultation period of 14 days — although this will depend on the complexity of the activities involved which may require longer time periods; and
- the option of a shorter (25 year) and longer term (100 year) permanence period, with a 20% discount on the credits available in addition to the 5% risk reversal buffer, such that the project on this shorter permanence period will only receive 75% of the credits that would otherwise be issued.

Further queries about this submission can be directed to AFPA on (02) 6285 3833.

Yours sincerely

**Ross Hampton**
**Chief Executive Officer**

AUSTRALIAN FOREST PRODUCTS ASSOCIATION

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**SUBMISSION ON THE EXPOSURE DRAFT OF THE CARBON CREDITS (CARBON FARMING INITIATIVE) AMENDMENT BILL 2014**

**23 May 2014**

## Introduction

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment on the *Carbon Credits (Carbon Farming Initiative) Amendment Bill 2014*.

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forest, wood and paper products.

AFPA has had a long history of stakeholder engagement on the Carbon Farming Initiative and associated domestic climate policy, as well as on international climate change negotiations and related policy measures.

This submission complements previous submissions by AFPA to the Domestic Offsets Committee on the Carbon Farming Initiative[1], as well as more recent submissions to the Department of Environment on the development of the Emissions Reduction Fund including on the Terms of Reference and Green Paper

[1] Specifically on the methodology for native forest protection projects. This submission is available at: http://www.ausfpa.com.au/wp-content/uploads/AFPA-submission-CFI-Native-Forest-Protection-Projects-Methodology.pdf

and submission to the Australian Government on the 19th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change[2].

AFPA believes that, given the right policy settings, the forest, wood and paper product industry can play an important role in Australia's ongoing mitigation effort.

*Crediting and contract period*

However, a key impediment for the uptake of emission reduction activities in the draft regulations and policy outlined in the ERF White Paper is the crediting period of up to 15 years and contract period of 5 years. Such a narrow time period for contracts is likely to be insufficient to encourage uptake of long-term abatement opportunities such as forest sequestration which have slow initial growth but higher longer term abatement. As identified in the ERF White Paper, we welcome the use of a consultant prior to the first auction to assist the Government in understanding the practicalities of devising a project proposal and the influence of the fixed contract term on this process. However, initial projects may well not be representative of projects in the longer term. Therefore, the Government should maintain access to independent advice through a consultant as the ERF evolves. In this way, it is hoped that genuine abatement options that may offer better longer term outcomes will not be missed.

AFPA does not support the new crediting period provisions that only allow projects to be approved and registered for a single crediting defined period, with the standard crediting period of seven years. Although the Bill allows a 15 year crediting period for sequestration projects, including reforestation, this is still too short for most plantation forestry projects. Plantation establishment is a long term venture, with a typical plantation rotation of 25-35 years for softwood plantations and 40-60 years for long rotation hardwood. The carbon accumulation (growth rates) in a plantation is relatively low in young (smaller) trees, but accelerates as the tree matures. A short crediting period does not account for the carbon accumulation during this more rapid growth phase. Preference would be for an initial crediting period of 25 to 50 years, in recognition of typical commercial growth rates of forestry projects.

Although there is the option for project proponents to apply for a subsequent crediting period, there is a risk to proponents associated with each subsequent

[2] This submission is available at: http://www.ausfpa.com.au/wp-content/uploads/AFPA-UNFCCC-COP-19-submission-2013.pdf

crediting period, particularly given the focus on crediting new projects over existing projects. This will greatly disadvantage long-term carbon abatement options such as forest sequestration projects, which will require proponents to reapply several times over the life of the project. Risks associated with these types of projects would be adequately dealt with via the risk of reversal buffer and permanence requirements.

*Perverse outcomes from 'reduced harvesting in native forests'*

It is also fundamentally important that the proposed amendments do not directly contribute to perverse incentives with adverse economic, social and environmental impacts, as is the case with the proposed regulations for 'avoided native forest harvesting' activity. AFPA note that this activity is included in the section entitled 'Protection of native forest', which is normally recognised in an international context as the protection of forests from forest clearing and land use change (i.e. not the harvest and replanting of forest on a sustainable basis).

In this case, AFPA argues that the activity of 'avoided native forest harvest' should be repealed in its entirety from the legislation, as it is not relevant and effectively ignores:

- its potential to directly cause significantly adverse economic and social outcomes through reduced wood processing and economic activity (particularly in regional areas); and
- the scientific literature showing the better long term carbon abatement benefits from harvesting sustainably managed native forests (i.e. compared to reducing harvest levels).

The draft regulations fail to recognise the significant body of research showing the potential for reductions in greenhouse gas emissions from forest harvest activities. This research has shown that sustainably managed forests and forest product industries can make a positive contribution to reducing or abating GHG emissions. The major pathways for emissions abatement include:

- the carbon sequestered in growing forests;
- the carbon stored in harvested wood products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre based products that have a substantially lower emissions footprint; and

- the use of woody biomass for renewable energy, thereby displacing fossil fuels.

The significant potential for the forest and forest product industries to contribute to climate change mitigation was acknowledged in the 4th assessment report of the International Panel on Climate Change (IPCC), which stated:

> *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.*[3]

A long term view must be adopted with respect to native forest harvest activities, as any potential short term gains in sequestration from 'reduced harvest' will be lower than the higher and increasing carbon abatement from maintaining harvesting activity into the future. In other words, by potentially incentivising reduced native forest harvesting, the CFI can actually contribute to greater net emissions over the medium to longer term. Such an approach is entirely inconsistent with the intent of the CFI and contrary to the expert view of the IPCC.

Recent modelling has shown that sustainably managed wood production forests can produce better carbon mitigation outcomes compared to reserved (i.e. unharvested) forests for two native forest types in coastal New South Wales, taking into account the multiple carbon abatement pathways identified above[4]. By taking a multi-decade approach (e.g. 50 to 100 years), the perverse outcomes from 'reduced harvesting' become apparent, as the carbon stored in HWPs and emissions reductions from the use of biomass for renewable energy continue to increase in perpetuity, in addition to the carbon stored in the regrowing forest (refer Figure 1).

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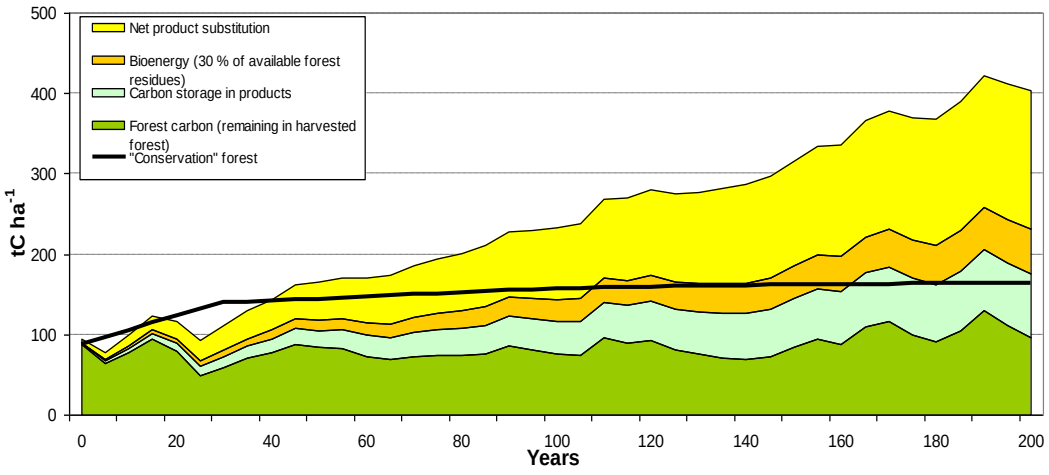
[3] Nabuurs, G.J., Masera, O., Andrasko, K., Benitez-Ponce, P., Boer R, Dutschke, M., Elsiddig, E., Ford-Robertson, J., Frumhoff, P., Karjalainen, T., Krankina, O., Kurz, W.A., Matsumoto, M., Oyhantcabal, W., Ravindranath, N.H., Sanz Sanchez, M.J., and Zhang, X. (2007). *Forestry (9), in Climate Change (2007): Mitigation. Contribution of Working Group III to the Fourth Assessment report of the Intergovernmental Panel on Climate Change.* (Metz B., Davidson O.R., Bosch P.R., Dave R and Meyer L.A. (eds.), Cambridge University Press, UK, and New York, USA.

[4] Ximenes F , George B., Cowie A., Williams J. and Kelly G. (2012) *Greenhouse gas balance of native forest in New South Wales, Australia. Forests* 3: 653-683.

**Figure 1.** Carbon emission abatement implications (t C ha-1 sequestered or displaced) of the 'conservation' and 'harvest' scenarios for North Coast forests.




Source: Ximenes et al (2012).

Similarly, research from the United States has shown that increasing harvest over the next 100 years, for a Midwest national forest, increases the strength of the carbon sink despite sequestration and harvesting often being portrayed as being in conflict[5].

Other peer reviewed international work has led to similar conclusions[6].

[5] Peckham, S.D., Gower, S.T. and Buingiorno J. (2012). Estimating the carbon budget and maximizing future carbon uptake for a temperate region in the U.S. *Carbon Balance and Management* 7: 6 (doi: 10.1186/1750-0680-7-6).

[6] See, for example:

Lippke, B., Oneil, E., Harrison, R., Skog, K., Gustavsson, L. and Sathre, R. (2011). Life cycle impacts of forest management and wood utilization on carbon mitigation: knowns and unknowns. *Carbon Management* 2: 303-333.

Malmsheimer, R.W., Bowyer, J.L., Fried, J.S., Gee, E., Izlar, R.L., Miner, R.A., Munn, I.A., Oneil, E. and Stewart, W.C. (2011). Managing forests because carbon matters: integrating energy, products and land management policy, *Journal of Forestry* 109(7S): S7-S50.

Oliver, C.D., Nassar, N.T., Lippke, B.R. and McCarter, J.B. (2014). Carbon, fossil fuel, and biodiversity mitigation with wood and forests. *Journal of Sustainable Forestry* 33: 248-275.

*Scientific integrity*

The current legislation requires methods to be supported by relevant scientific results published in peer-reviewed literature. AFPA does not support the dilution of this requirement via a requirement that methods are simply 'supported by clear and convincing evidence'. The new requirement is too vague, subjective and open to misuse. The current requirement that methods should be supported by scientific results published in peer-reviewed literature should be maintained to uphold the credibility of the system.

*Leakage*

AFPA is also concerned about the leakage requirement such that methods need only account and make deductions for material increases in emissions that are a direct result of the project. For forestry activities involving the harvest of wood products, there can be multiple 'on-site' and 'off-site' emission reduction pathways given the abatement benefits from the use of HWPs and bioenergy to displace fossil fuels. Furthermore, bushfire risk and associated emissions should be taken into account in forest land management activities. Ignoring leakage through bushfires can also result in perverse outcomes, by failing to acknowledge the release of carbon into the atmosphere through bushfires. For example, it is well accepted that earlier Indigenous burning practices in Australia had a direct impact on wildfire behaviour:

> *Australian bushfire scientists and anthropologists generally agree that, before European settlement, Indigenous people carried out frequent, regular and wide-scale burning, especially in the drier forest types. The net result was a mosaic of burnt and unburnt patches that limited the extent and intensity of fire under severe weather conditions.*[7]

Over the past decade there have been numerous state and national public inquiries[8] into the inadequacy of bushfire mitigation including inadequate levels of fuel reduction, particularly on public forest lands.

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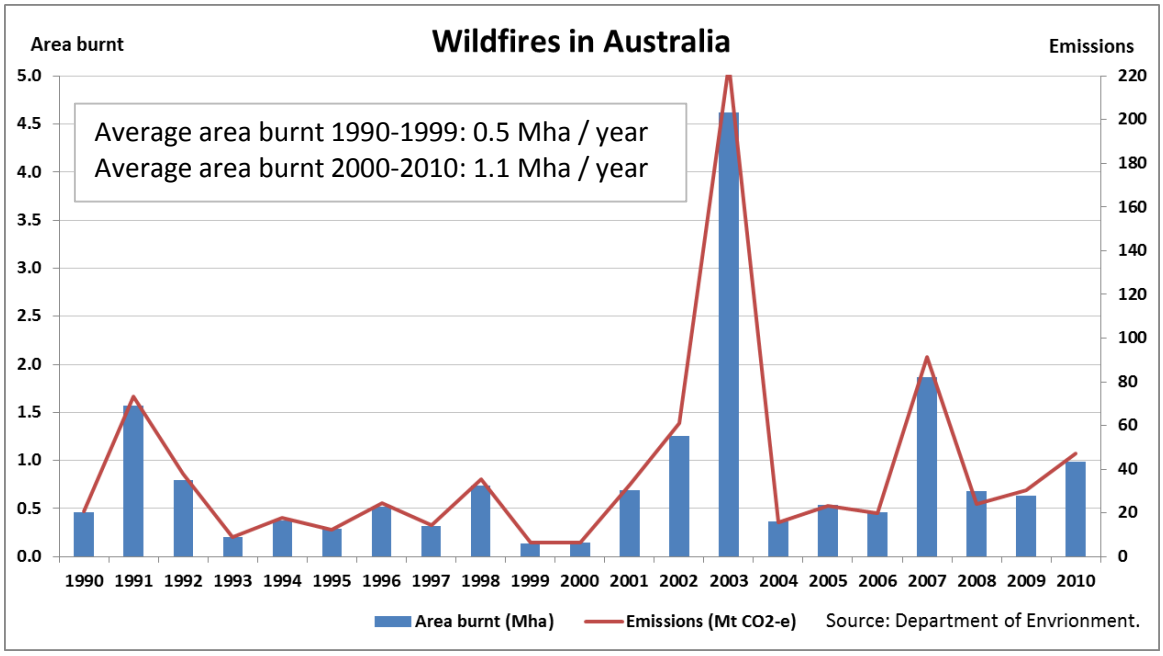
[7] Montreal Process Implementation Group for Australia 2008, *Australia's State of the Forest Report 2008*. Bureau of Rural Sciences, Canberra.

[8] Parliament of New South Wales Inquiry into the 2001/2002 Bushfires; House of Representatives Select Committee on the Recent Australian Bushfires 2003; Council of Australian Governments National Inquiry on Bushfire Mitigation and Management 2004; Victorian Bushfires Royal Commission 2009; Senate Inquiry into Bushfires in Australia 2010.

The downsizing of the forestry industry brought about by the transfer of large tracts of multiple-use state forest to formal conservation reserves has also been associated with a more passive approach to fuel reduction on public forest land. This has contributed to a decline in resources for fuel reduction and suppression, including fire management personnel and the maintenance of access tracks and equipment[9].

The average annual area burnt from bushfires in Australia has doubled over the past decade, largely as a result of a number of very large hot fires (Figure 2), while the area treated for fuel reduction has declined over the same period.

**Figure 2.** Wildfires in Australia, 1990-2010.




Simplifying the leakage requirement also overlooks the increased pressure avoided harvest places on adjoining land, with avoided harvest in one part of the forest placing increased pressure and increasing harvest intensity on neighbouring land to maintain the supply contracts for processing facilities within the region. If this additional resource from neighbouring land is not accessed, there can be additional flow on social and economic impacts through the closure of processing facilities, and the associated loss of employment and impact on regional economies.

[9] Stephens, M. (2010). Bushfire, forests and land management policy under a changing climate. *Farm Policy Journal* 7: 11-19.

*Operational efficiency*

AFPA acknowledge the efforts of the government to reduce the complexity and red-tape associated with the current process of developing methodologies and gaining approval for carbon abatement projects under the CFI. AFPA welcome many of the changes in the *Carbon Credits (Carbon Farming Initiative) Amendment Bill 2014* including:

- the renaming of the independent expert committee to the Emissions Reduction Assurance Committee and the broadening of its function to include appropriate expertise across a range of sectors and disciplines, although appropriate conflict of interest measures should be included in the new legislation;
- better clarification of the additionality requirements through a removal of the rigid common practice test and revision of the definition to 'unlikely to occur in the ordinary course of events';
- the removal of barriers to project aggregation;
- the removal of the requirement that the proponent must indicate whether the project is consistent with relevant Natural Resource Management (NRM) plans, as this duplicates regulation through other legislative processes;
- the removal of the constraint on registering projects involving harvesting or clearing of native forests, given the important contribution sustainably managed forests and harvested wood products can make to abatement;
- the removal of the distinction between Kyoto and non-Kyoto projects and credits;
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- the proposed streamlined process for developing methodologies, with a standard public consultation period of 28 days, and options for a short consultation period of 14 days — although this will depend on the complexity of the activities involved which may require longer time periods; and
- the option of a shorter (25 year) and longer term (100 year) permanence period, with a 20% discount on the credits available in addition to the 5% risk reversal buffer, such that the project on this shorter permanence period will only receive 75% of the credits that would otherwise be issued.

**Conclusion**

AFPA supports many of the changes that will reduce the complexity and red-tape associated with developing methodologies and gaining approval for carbon abatement projects under the CFI.

However, a key impediment for the uptake of emission reduction activities in the draft regulations and policy outlined in the ERF White Paper is the crediting period of up to 15 years and contract period of 5 years. Such a narrow time period for contracts is likely to be insufficient to encourage uptake of long-term abatement opportunities such as forest sequestration which have slow initial growth but higher longer term abatement.

It is also fundamentally important that the proposed amendments do not directly contribute to perverse incentives with adverse economic, social and environmental impacts, as is the case with the proposed regulations for 'avoided native forest harvesting' activity.

In this case, AFPA argues that the activity of 'avoided native forest harvest' should be repealed in its entirety from the legislation, as it is not relevant and effectively ignores:

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