



## Submission Template

### Emissions Reduction Fund draft determination

#### Carbon Credits (Carbon Farming Initiative – Plantation forestry) Methodology Determination 2016

##### Overview

This submission template should be used to provide comments on a draft Emissions Reduction Fund determination

##### Contact Details

|                              |  |
|------------------------------|--|
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| <b>Date:</b>                 | 9 January 2017   |

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- Department of the Environment and Energy;
- Emissions Reduction Assurance Committee; and
- Clean Energy Regulator.

If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

Do you want this submission to be treated as confidential?  Yes  No

##### Submission Instructions

Submissions should be made by **close of business** on the day the public consultation period closes for the determination. This date will be specified on the website. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address – [EmissionsReductionSubmissions@environment.gov.au](mailto:EmissionsReductionSubmissions@environment.gov.au)

Submissions may alternatively be sent to the postal address below to arrive by the due date.

ERF Governance, ERF Division  
Department of the Environment  
GPO Box 787  
CANBERRA ACT 2601

**Name of draft determination: Carbon Credits (Carbon Farming Initiative – Plantation forestry) Methodology Determination 2016**

**General/overall comments**

The Australian Forest Products Association (**AFPA**) welcomes the opportunity to comment on the Department of Environment and Water Resources draft *Carbon Credits (Carbon Farming Initiative – Plantation forestry) Methodology Determination 2016*.

AFPA is the peak national body for Australia's forest, wood and paper products industry and represents 90% of the industry by value. AFPA represents industry interests to governments, the general public and other stakeholders on the sustainable development and use of Australia's forest, wood and paper products.

The forest products industry has significant potential to contribute to climate change mitigation in Australia. The major pathways for emissions abatement from the forest products industry 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 low embodied energy, including new bio-products; and
- the use of woody biomass for renewable and baseload energy generation (including for renewable heat and biofuels), thereby displacing fossil fuels.

The significant potential for the forestry and forest products industry to contribute to climate change mitigation was acknowledged in the 4th assessment report of the International Panel on Climate Change, 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.'*

Trees absorb carbon dioxide from the atmosphere and store carbon in biomass. Forests also store carbon dioxide in forest litter and soil organic matter. A significant and growing amount of carbon is stored in wood and paper products. ABARES 'Australia's Forests at a Glance 2015' details that 171 million tonnes of carbon are stored in existing plantations, with a further conservative 103 million tonnes stored in wood and paper products in service, and 123 million tonnes stored in wood and paper products in landfill. Tree planting, particularly forestry plantations, offers one of the greatest opportunities for large-scale emissions reductions, through carbon sequestration and storage to offset emissions from other sources. A simple, effective, broadly applicable and low cost CFI method will allow forestry plantation growers to participate in the Emissions Reduction Fund (**ERF**) and allow the Government to realise significant carbon storage potential.

The draft *Carbon Credits (Carbon Farming Initiative—Plantation Forestry) Methodology Determination 2016 (the draft Determination)* provides a mechanism to increase carbon sequestration through establishment of new plantation forests, and increase sequestration in existing plantation estates through transition from short-rotation plantation forests to long rotation plantation forests.

AFPA has reviewed the detail of the draft Determination, the associated explanatory statement, and the proposed changes to the *Carbon Credits (Carbon Farming Initiative) Rule 2015 (CFI Rule)*. AFPA is concerned that **there are some significant exclusions, provisions and constraints that will increase project uncertainty and severely limit any potential uptake by project proponents**. This is disappointing given the potential carbon storage opportunity of forest plantations and their ability to be a significant sustainable element of Australia's contribution to the climate change solution.

**Do you consider that this determination may have any adverse environmental, economic or social impacts? What existing frameworks are in place to address any adverse impacts?**

**Environmental, economic or social impacts:** We do not consider the determination will have any adverse impacts, rather we consider that plantations have significant positive environmental, economic and social impacts. Plantations play a critical role in the provision of sustainable timber and fibre to our economy and the rest of the world including producing sawn wood for housing, engineered wood products, board products, paper products (e.g. newsprint, copy paper, tissue and packaging products), and a growing range of new innovative bio-products. Plantations underpin significant regional jobs and economic development.

In addition to their commercial wood fibre value, plantations also provide a number of environmental and social benefits. These include carbon sequestration and storage, water quality improvements, regional climate moderation, salinity mitigation, erosion control, improving vegetation and soil condition, and providing shade and shelter for livestock (improving livestock productivity). The multiple benefits and positive externalities (the majority of which are not accounted for by government) that arise from planting trees should strengthen the case for finalising an effective methodology that maximises uptake by this carbon positive industry.

**Existing Frameworks:** Effective legal, institutional and economic frameworks are critical for sustainable forest management. The legal system defines and allocates legal and regulatory responsibilities, and provides for public participation and the protection of conservation values. Institutions provide mechanisms for policy-making and decision-making, and for the engagement of the wider community in continuous improvement in sustainable management of forests. All States, Territories and the Australian Government have legislation to support the conservation and sustainable management of Australia's forests. This is underpinned by a well-established policy environment guided by a National Forest Policy Statement.

There is a comprehensive existing regulatory and operational framework around the establishment of new plantations in all the states of Australia. This includes codes of forest practice that provide specific operational guidance on sustainable forest management practices in public and private forests available for wood production, including plantations. The codes of forest practice, as well as externally accredited environmental management systems and forest certification schemes such as the Forest Stewardship Council and the Australian Forestry Standard /Programme for Endorsement of Forest Certification (with close to 100% of all forestry plantations in Australia certified as sustainable), provide forest managers with a structured approach to forest planning and management, including protection of the environment.

**Specific comments – please insert your specific comments below, listed against the part of the draft determination to which they apply**

| <b>Determination reference</b>   | <b>Comments</b>   |
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| <p><b>The 600 mm annual rainfall zone restriction.<sup>1</sup></b></p> | <p><b>Summary:</b> Forestry plantations are defined as ‘a specified tree planting’ in the CFI Regulation and remain subject to the existing 600mm annual rainfall zone restriction.</p> <p><b>Comments:</b> The vast majority of commercial plantations in Australia are planted in annual rainfall zones of 600mm and above. The 600 mm annual rainfall zone restriction effectively duplicates provisions contained in the National Water Initiative (NWI). To progress a potential project under the draft Determination a proponent would require a State authority endorsement that the project is located in a region that meets the water policy requirements or that the project holds a suitable water access entitlement. In most cases this water assessment process by the relevant State authority has not been undertaken or completed. Consequently, this requirement increases the uncertainty and regulatory risk for project proponents.</p> <p>In some jurisdictions, the development of water policy has been simplistic in its approach to the treatment of interception by plantation forests. There is inadequate recognition of the broader environmental and socio-economic benefits from plantations, and a failure to equitably include interception by other dry-land crops in the water planning framework.</p> <p>The lack of new commercial forest establishment demonstrates new plantations in areas with above 600mm annual rainfall are effectively ‘non-commercial’ under current settings. The 600mm annual rainfall zone restriction is considered an arbitrary threshold for determining the rainfall zone in which a ‘normal’ plantation would not be financially viable. This restriction is an unnecessary attempt to define financial additionality in climatic terms and should be quickly addressed.</p> |

<sup>1</sup> Carbon Credits (Carbon Farming Initiative) Regulation 2011, Section 3.37.

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|  | <p><b><i>The 600 mm annual rainfall zone restriction remains a significant barrier for potential projects to participate and must be quickly addressed.</i></b></p>   |
| <p><b>Minister for Agriculture and Water Resources discretion.<sup>2</sup></b></p> | <p><b>Summary:</b> Proposed amendments to the CFI Rule would require a notification to be made by the project proponent to the Federal Minister for Agriculture prior to submitting the project application. The Minister may reject a notification on the basis that a project has a ‘undesirable impact’ on agricultural production, or land values, in the region where the project would be located.</p> <p><b>Comments</b></p> <p><b>Lack of Detail:</b> There is a significant lack of detail on this proposed Rule change including: What limits are there on the Minister’s discretion? What are the criterion for the decision (e.g. what is undesirable?) and what is the materiality of these criteria? What are the timelines? What is the level of transparency of the decision and reasons for that decision? Will there be any process for appeal? These issues need to be addressed otherwise the uncertainty will severely limit the number of potential applications under the draft Determination.</p> <p><b>Timeframes (30/60 days):</b> the timeframe should be at most 30 days. The longer the Minister takes to consider the application - the more likely project proponents will miss out on potential commercial land purchases due to ‘sovereign risk’ uncertainty. It is essential that project proponents have the ability to submit applications with basic information early and outside the Clean Energy Regulator’s ERF auction process, if this proposed Rule change remains.</p> <p>The current drafting provides a lack of certainty for any project proponent to address commercial viability and would be a major impediment to any new projects under this proposal. It should be again noted that the establishment of new plantations face many barriers, including that they are considered a higher risk and very long-term investment.</p> <p><b>Guidelines:</b> The Department of Environment and Energy has indicated that policy guidelines would be developed to support implementation of this provision. How long until these policy guidelines are drafted? Industry is concerned that without draft policy guidelines it is very difficult to comment on whether this Rule change will provide the necessary certainty for project proponents.</p> <p><b>Equity:</b> Industry sees the proposed Rule change as inequitable as it is not applied to any other CFI methods. Industry is concerned that the proposed Rule change will reduce the uptake of this draft Determination.</p> |

<sup>2</sup> Carbon Credits (Carbon Farming Initiative) Rule 2015, s20B; Explanatory Statement, Page 4.

**Additionality in relation to State and Territory Governments.<sup>3</sup>**

**Summary:** The proposed amendments to the CFI Rule would exclude State or Territory government funded (or foregone revenue in relation to) new plantation projects. This is said ‘to ensure that emissions reduction activities are not paid for twice’.<sup>4</sup>

**Comments**

The exclusion is broadly drafted and there are serious questions about the current drafting of the clause, including:

- What does ‘by, or on behalf of a state government’ mean? Does it exclude joint ventures? Does it exclude where State government leases land from a farmer for wood supply and the farmer applies for ERF?
- What does ‘forego revenue’ mean? Potentially this could exclude long-term leases to commercial non-government entities.
- Page 9 of the Explanatory Statement states “The purpose of the government program requirement is to ensure that emissions reduction activities are not paid for twice. To ensure new plantation forests meet this requirement, amendments to the *Carbon Credits (Carbon Farming initiative) Rule 2015* are proposed.” What is the intention here? Is it to prevent financial additionality – if so this is covered by the existing additionality rule in section 27 of the Act. Is the intention to extend section 27 to expressly include State or Territory government entities? As the drafting currently stands, it appears to exclude any project being declared an offset project if it has any state government investment regardless of the reason for this investment or the impact on financial additionality. It is AFPA’s view that the current drafting is a very blunt tool excluding all State or Territory government investment. AFPA also notes the unusual step of specifically highlighting a project intended to be excluded by the rule change – namely the WA Government Programme mentioned on pages 9-10 of the Explanatory Statement. Note that the announced WA Government Programme was targeting wood supply rather than carbon sequestration. The proposed Rule change is unnecessary and seems to conflate the issues of new plantation funding and additionality.

In addition, State or Territory government forestry entities are operated on a commercial basis. They are not directly funded by government, rather the government is simply a shareholder, and decisions about new plantations must be commercial. As noted in the Explanatory Statement, Australian companies (including State and Territory government forestry entities) are not establishing new plantations and in some regions they are also failing to replant after final harvest. One reason for this (as noted above) is that the return on investment is not commensurate with the risk, given the long-term nature of the investment. Payment for carbon sequestration in new plantations under the ERF potentially

<sup>3</sup> Proposed new CFI Rule 21 (6) and (7). Described in Explanatory Statement, Page 9.

<sup>4</sup> Explanatory Statement, Page 9.

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|   | <p>provides a tipping point for the investment to proceed, by improving the return on investment.</p> <p>The economics of investing in new plantations suggest a limited ability to compete with existing agricultural activities. A recent 2016 study by BAEconomics (<a href="#">here</a>) details that “the economics of plantation forestry in Australia are increasingly challenged. High upfront costs coupled with long lead times to return and increasing regulatory burden mean that several factors must align to allow plantation projects to generate a profit.”</p> <p>AFPA also notes that the additionality requirements set out in section 21 of the Rule are related to emissions reductions, and are not blanket exclusions for potential projects which include State or Territory government investment.</p> <p>AFPA is of the view that existing financial additionality rules already apply under section 27 of the Act.<sup>5</sup> <b><i>AFPA strongly recommends that the proposed Rule change is deleted as it is unnecessary.</i></b></p>  |
| <p><b>The discount rate for permanence.<sup>6</sup></b></p> | <p>The Explanatory Statement includes a question on the current discount rate (20%) for a 25-year permanence obligation compared to a 100-year permanence obligation of potential projects. Any increase in the discount rate from the existing 20% is not supported rather AFPA supports a reduction in the discount rate to encourage participation.</p> <p>There are key existing reasons that underpin the re-establishment, continuation and permanence of forest plantations beyond 25 years. These include:</p> <ol style="list-style-type: none"> <li>a. Land purchase has occurred, which is the major initial cost component. This would underpin re-establishment of the plantation;</li> <li>b. Roading, firefighting and fencing infrastructure is already in place for subsequent rotations. This would underpin re-establishment of the plantation;</li> <li>c. The plantation’s productivity is known for subsequent rotations. This would underpin re-establishment of the plantation;</li> <li>d. Carbon storage in Harvested Wood Products has a very long term positive impact; and</li> <li>e. The private sector is very reluctant to enter into 100 year obligations as was shown to be the case under previous carbon abatement schemes (such as the previous NSW Greenhouse Gas Reduction Scheme). Further it should be recognised that for the private sector 25 years is seen as a very long term investment and, as such, will have limited appeal. Applying a 20% discount to the 25-year permanence option heavily reduces its financial appeal and any potential uptake.</li> </ol> |

<sup>5</sup> S27 (4A) (c) of the Act.

<sup>6</sup> Carbon Credits (Carbon Farming Initiative) Act 2011, s23; Explanatory Statement, Page 11.

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| <b>Section 17</b>                        | Draft Section 17 proposes a process for stratification, or demarcation of Carbon Estimation Areas (CEAs). In the interests of reporting simplicity (while remaining accurate), it is proposed that such demarcation should only be made if the management influence is deemed material and limited to changes that can be demarked in FullCAM.   |
| <b>Subsection 18(4)</b>                  | Draft Subsection 18(4) proposes parameters for model point location/CEA demarcation for split CEAs. Given the draft method is fully model driven with all carbon yields being derived from FPI spatial layer mapping and climate data embedded within and accessed by FullCAM. It is suggested that potential and potential errors increase as more CEAs are created within a project, and CEA division should be avoided where unnecessary. In the interests of simplicity and accuracy it is proposed that the ability to create ‘multi-part’ CEAs should be driven primarily by past management, FPI layer data and other underlying FullCAM model parameters, rather than being restricted by a single separation distance rule.   |
| <b>FullCAM guidelines and Division 3</b> | <p>The approach to ‘Harvested Wood Products’ has undergone significant development. The draft Determination requires project developers to identify types of forest products and the proportions going to end uses such as paper, packaging, furniture and construction. Carbon stock estimates in FullCAM use parameters for each NPI region, species, log class and end use. It is understood from the Explanatory Statement that the draft Determination does not include wood products in landfill, to avoid potential double counting of abatement under ERF waste projects.</p> <p>Consideration should be given to including Harvested Wood Products in landfill and also reviewing the proposed decay rates - in light of recent research studies that indicate that, especially in landfill environments, wood and paper products decay at slower rates than has been assumed. (see Ximenes, F.A.; Gardner, W.D.; Cowie, A. (2008) <i>The decomposition of wood products in landfills in Sydney, Australia.</i> etc).</p> |
| <b>Division 3 Subdivision 2</b>          | <p>Consideration should be given to reviewing:</p> <ul style="list-style-type: none"> <li>a) the proposed zero baselines for new long rotation plantation projects in order to reflect the relative carbon risks of alternative land-use and agricultural activities, and to maximise the potential carbon stored. For example, alternative land-uses to forest plantations are beef and sheep grazing. These agricultural activities are a major contributor to greenhouse gas emissions accounting for around 70% of total agricultural emissions or 11% of Australia’s total emissions.</li> <li>b) the default use of a non-zero baseline for potential projects where a short rotation crop is being converted to a long rotation crop, irrespective of whether there was a realistic chance that the short rotation crop would be replanted without a price on carbon being applied.</li> </ul>  |

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|  | <p>The use of a non-zero baseline in these situations will result in the bulk of the carbon benefit that this potential project type provides being excluded from the calculation of carbon abatement that the potential project can claim. It is suggested that there could be some potential transparent mechanisms to identify areas where replants are not commercial that could be implemented to provide a consistent and objective assessment of future crop viability.</p>  |
| <p><b>Schedule 1 – Short-rotation plantation forests</b></p> | <p>Schedule 1 is currently split between Part 1 and Part 2. Under Part 2 there are specific plantations (e.g. in Tasmania <i>Eucalyptus nitens</i> and <i>globulus</i>) identified with “additional evidence is required” before they can be considered as Part 1. What is the additional evidence required?</p>  |
| <p><b>Schedule 3</b></p>                                     | <p>Potential new plantings of African Mahogany in the Northern Territory NPI region and Indian Sandalwood in other NPI regions, are proposed to be excluded. The Department of Environment and Energy has proposed that these plantation types within national plantation regions are not eligible under the draft Determination, primarily (it is assumed) because these are regions that are considered likely to see expansion of the plantation estate in the business-as-usual scenario. These exclusions isolate these specific plantations and do not recognise the potential for increased or sustained investment in these new plantations if carbon payments are added to the returns for these long-term investments.</p> <p><b>The exclusion of Indian Sandalwood (Australia Wide) and African Mahogany (NT only) is unnecessary as existing additionality rules apply.</b> The exclusion is a blunt tool instead of undertaking an assessment of additionality. In addition, the exclusion is inconsistent with the description of the draft Determination (page 3 of Explanatory Statement). Robust data exists which makes it clear what expansion of the plantation estate means in a business-as-usual scenario. The exclusion will prevent potential projects of expansion beyond business-as-usual for these species. This is unfortunate given the carbon sequestration benefits additional plantations would have.</p> |