

SUBMISSION ON THE EMISSIONS REDUCTION FUND GREEN PAPER

Introduction

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment on the Emissions Reduction Fund (ERF) Green Paper.

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 development of domestic climate policy schemes, as well as on international climate change negotiations and related policy measures.

This submission builds on the earlier AFPA submission on the Terms of Reference for the Emissions Reduction Fund (ERP) and provides further comment on specific design aspects contained in the Green Paper.

Sources of abatement under the ERF

The forest, wood and paper products industry is in a unique position in that it represents an industry that, with the right policy settings, could make a significant contribution to the ERF and Australia's emission reduction targets.

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.¹

The major pathways for emissions abatement from forestry and wood processing activities include:

- the carbon sequestered in growing forests;
- the carbon stored in harvested wood products (HWPs);
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre products that have a substantially lower emissions footprint; and
- the use of woody biomass for renewable energy, thereby displacing fossil fuels.

AFPA has identified a range of domestic activities that could potentially contribute up to 30 million tonnes of emissions abatement over the next 5 to 10 years. These activities (not exhaustive), include:

- new plantation expansion (i.e. progress toward the 2020 Vision);
- improved silviculture and productivity (i.e. growth) in existing plantations and native forests;
- use of existing native forest and plantation forestry and processing wood waste (i.e. residues) for bioenergy;
- greater use of residues and thinnings from managed native forests and plantations, as well as processing wood waste, for bioenergy;
- substitution of wood products for emissions intensive materials, such as concrete, steel, aluminium and plastics in housing, multi-residential and commercial construction (e.g. greater use of solid and engineered wood for structural and non-structural uses);
- avoided conversion of forest plantations back to agriculture post-harvest;
- revegetation on marginal land for non-wood benefits (e.g. erosion control, biodiversity and farm forestry);
- use of combined mechanical (i.e. biomass harvesting) and fuel burning reduction treatments to reduce emissions from native forest prescribed burns;
- increased fuel reduction programs to reduce emissions from future bushfires, particularly from their extent and severity;
- renewable (i.e. bioenergy) heat capture and use in manufacturing processes;

¹ Nabuurs, (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.

- energy efficiency in the supply chain via the use of new machinery, fibre recycling and alternative energy sources (e.g. fuel switching from electricity to natural gas or bioenergy sourced from renewable biomass etc.).

Furthermore, it should be acknowledged that to date Australia's emission reductions have relied greatly on the land based sector and forestry activities, through recognition of the carbon sequestered from post-1990 afforestation and reforestation activities (i.e. mainly commercial plantations) and avoided deforestation from reduced vegetation clearing for agriculture. The current plantation estate already contributes an emissions offset of around 4.5% of Australia's total emissions of 552 million tonnes, mainly from the approximately 800,000 ha of Kyoto compliant plantations (i.e. those established on cleared agricultural land since 1990). AFPA believes that forestry activities can play a direct role in Australia's ongoing mitigation effort and is indeed essential to the overall success of the ERF and Australia's ability to meet its emission reduction targets into the future.

However, it is critically important that the ERF and related policies such as the Carbon Farming Initiative (CFI) provide the right framework to encourage a broad range of land based activities and low cost options. This is because a number of previous regulatory impediments have limited the overall uptake from forestry related activities. Without addressing these fundamental design issues, the forestry sector is unlikely to be able to participate in a meaningful way to the ERF, at least in the short term. Similarly, the ability for the wood and paper product manufacturing sectors of the industry to participate will depend on the overall design of the ERF scheme. These design elements of the proposed ERF are discussed further below and include:

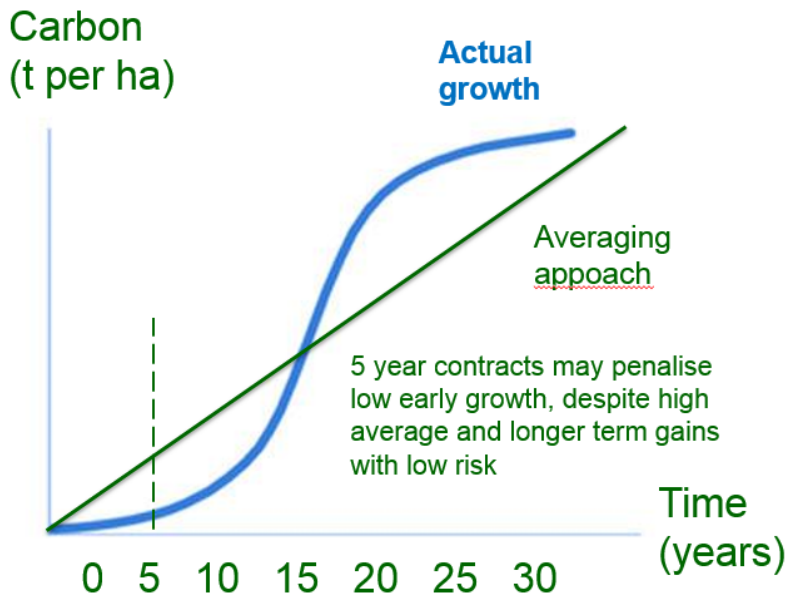
- the five year crediting period;
- a sectoral approach to low cost abatement and co-benefits;
- CFI administrative and methodological issues;
- renewable bioenergy; and
- auctioning and safeguarding.

Five year crediting period

A major impediment of the proposed design of the ERF is the five year crediting period for projects. Given such a narrow time period for carbon payments, the scheme will be skewed toward short term projects with very short pay back periods and will severely limit the scope for projects with low initial abatement but higher abatement over the medium to longer term. This is in fact the case with typical forestry and revegetation projects that have low early growth in the first 5 years but

higher carbon sequestration over the medium term with low overall risk (refer Figure 1).

Figure 1. Typical afforestation (e.g. plantations) abatement curve



The rationale for the five year limit, which has the potential to severely limit opportunities for abatement, is unclear.

To address these issues, AFPA recommends that the ERF extend the contract period to beyond 5 years, which should logically match the carbon off-take or forward agreements of the specific project or activity type.

This would help to promote the broader participation of projects such as forestry plantings that have emission reduction benefits and financial pay-backs beyond 5 years. A 5 year maximum duration of contracts will stifle private investment for these types of projects, despite their potential to generate higher overall abatement and lower costs per unit of carbon abatement over the medium term. Similarly, emissions savings from many energy saving and new technology projects in the wood and forest products sector would have significant capital costs and extended pay back periods, which would limit their participation in a short term contract period.

Sectoral approach to low cost abatement and co-benefits

AFPA notes the emphasis in the Green Paper on the lowest cost of abatement. This is a sound public policy principle and should be part of the ERF guiding principles in terms of achieving economic efficiency and cost-effective climate change mitigation.

However, in targeting low cost abatement within the Australian economy, AFPA notes that the ERF is intended to be broad based and provide 'incentives for businesses, farmers, households and other entities to invest in technologies that will reduce our emissions at lowest cost'. In this respect, AFPA supports further investigation into the concept of adopting a sectoral approach in which the ERF allocates a proportion of its investment into different abatement or technology classes. The main benefits of a sectoral approach can include:

- spreading the portfolio risk;
- generating long term domestic structural capacity across key sectors; and
- delivering a range of low cost options with identified co-benefits and community support.

This would facilitate a range of technology options and land based activities which can deliver cost-effective outcomes for carbon abatement and broader economic, social and environmental outcomes. With respect to the forestry sector, there can be considerable co-benefits in addition to carbon emissions reductions, including reduced salinity, reduced soil erosion, enhanced water quality, improved agricultural productivity, biodiversity and regional development.

CFI administrative and methodological issues

AFPA supports streamlining the administrative process for methods approval under the CFI, as it is presently lengthy, complex and inflexible. Given its inflexibility and narrow range of activities, it does not provide the economic drivers needed to promote the full suite of forestry abatement activities.

It is essential to reduce the time involved in methods approvals and projects under the CFI. Currently it takes approximately twelve months or more before a proponent is able to know whether an activity is eligible under the positive and negative list approach. Furthermore, once an activity is deemed as eligible the method needs to go through an approval process involving assessment by the Department of Environment and the Domestic Offsets Integrity Committee (DOIC), before a public consultation phase, further assessment and finally consideration by the Minister. This process can take a further twelve to eighteen months and involves a direct cost burden on the proponent.

AFPA has been concerned with the slow rate of development of methods under the CFI scheme, including slow progress on the development of commercial plantation forestry methods, and supports the administrative streamlining of the scheme.

AFPA recommends abolishing the positive and negative list approaches, as the matters to be addressed by these lists can be adequately addressed using appropriate integrity principles and in the development of the methods themselves. These lists simply add more administrative complexity, uncertainty and cost to the process.

The CFI also includes a number of additional natural resource management (NRM) provisions targeted at forestry projects, including the need for water access property rights or regulatory approval from the National Water Commission for forests established on lands receiving more than 600 mm average annual rainfall. Such arbitrary NRM provisions in the CFI regulations duplicate existing NRM legislation and regulation, which already adequately account for these types of values, and should be removed on the basis of unnecessary red-tape.

Methodological issues

AFPA supports the use of robust principles in determining approved methods, given the importance of measurable, verifiable and additional (i.e. beyond business as usual) projects for maintaining the integrity of the ERF and CFI systems. In this regard, the Domestic Offsets Integrity Committee (DOIC), as an independent committee of experts to assess proposed activities and underlying methods, plays a critical role in ensuring the integrity of the CFI and the ERF schemes.

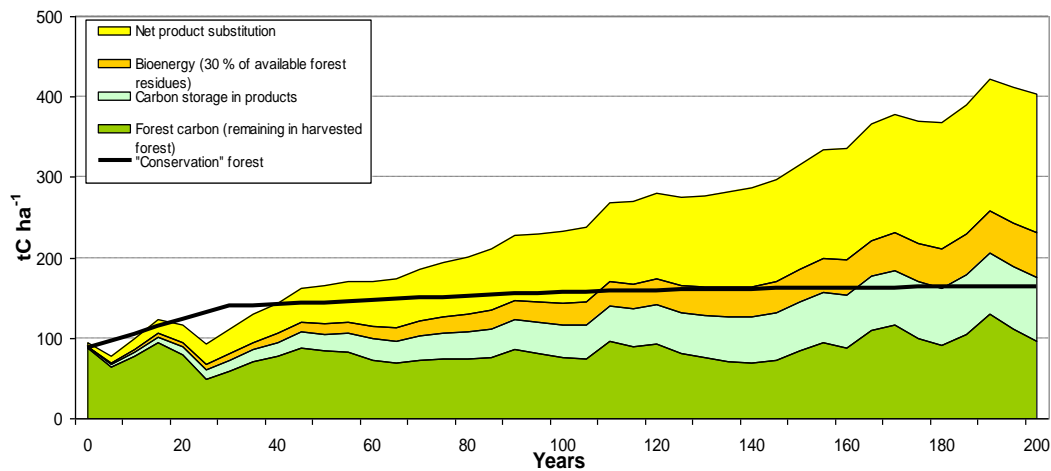
It is therefore important that the composition of the DOIC has well-balanced and rigorous scientific expertise capable of assessing the broad range of issues and methods under the CFI, as well as appropriate transparency and governance arrangements.

From an AFPA perspective, there exist a number of serious deficiencies in the development of forestry project methods to date as well as for activities listed on the CFI positive list. These deficiencies relate to their narrow definition and inadequate consideration of abatement from both 'on-site' and 'off-site' carbon, in terms of the multiple abatement pathways identified previously (refer page 2) and acknowledged by the IPCC.

For example, the activity 'The protection of native forest from harvest' is presently listed on the CFI list despite there being scientific debate in the domestic and international literature on the relative abatement from forests that are set aside for 'protection' (i.e. avoided harvest) versus sustainably managed forests (i.e. where timber harvesting is undertaken on a periodic basis). Research has shown that

sustainably managed wood production forests can produce better long term 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 above².

Figure 2. 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).

AFPA is therefore concerned that such an activity has been proposed and accepted by the DOIC prior to a clear consensus on its abatement potential, as well as its potential to contribute to long term perverse abatement outcomes. A growing body of research is demonstrating that a failure to take these factors into account can lead to short term approaches, such as avoided harvesting, that can lead to perverse mitigation outcomes³. Other issues such as fire management need to be taken into account⁴. If such 'forest protection' projects are based on a reduction of sustainable native timber harvesting (as opposed to avoided deforestation), this activity can

² 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.

³ Malmshemer, 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.

⁴ Raison, R.J. (2013). Options for managing Australia's forests for greenhouse gas mitigation. Proceedings of the Managing our Forests into the 21st Century National Conference, Institute of Foresters of Australia, pp. 108-113.

contribute to perverse long term mitigation outcomes. These issues are discussed in more detail in the attached AFPA submission made to the Australian Government, as part of the nineteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

Additionality

Another key impediment has been the blunt interpretation of additionality, particularly for commercial plantation forest projects. The reliance on a common practice test - defined simply as an activity that represents 5 per cent of existing land use in a region - fails to acknowledge the spatial and historical (temporal) factors that have generated plantation investment. Apart from the recent MIS expansion, which has now since collapsed, most previous plantation development in Australia was undertaken by state governments using public funds as part of broader self-sufficiency and regional development goals. The issue is that given private investment has been negligible, new plantation projects should be deemed 'common practice' under the 5 per cent rule as a result of this previous public investment. The development of sensible rules for determining additionality under the CFI is therefore much needed, particularly for the plantation forest sector.

AFPA supports the principles contained in the Green Paper for 'streamlined administration' and 'genuine emissions reductions' in order to improve administrative efficiency and ensure the integrity of the scheme.

Further, AFPA further supports the proposal to identify 'additional' actions in a way that 'minimizes and encourages participation from the adoption of significant new management activities and practices, the adoption of cleaner technologies or the expansion of emissions reduction activities such as tree planting or revegetation'.

While recognizing the potential complexity of using 'financial additionality' as a test for genuine abatement, AFPA would support the use of such options where it was the most relevant mechanism for the specific project or action and significant abatement potential could be achieved.

Review of ERF

AFPA considers the review of the ERF in 2015 as premature as the new arrangement will only have been in place for a limited amount of time.

Renewable bioenergy

Globally, bioenergy (i.e. energy sourced from biomass) accounts for around 77 per cent of global renewable energy, which represents 13 per cent of the world's primary

energy mix. Furthermore, woody biomass accounts for nearly 90 per cent of the world's renewable energy supply⁵.

Forest biomass can also be utilised for renewable heat and liquid fuels, which tend to be more efficient than electricity generation. Despite having the highest area of forest per capita of the developed nations, Australia lags behind in the use of bioenergy, which represents just ~ 0.9 per cent of energy production.

Presently, the sole emphasis on renewable electricity via the RET is an impediment to the development of renewable heat and cogeneration opportunities. The use of renewable heat is actively promoted in Scandinavia and many other parts of the world as an effective means for reducing fossil fuel reliance.

Furthermore, bioenergy from woody biomass should be promoted given its links to multiple abatement pathways and the concept of cascading mitigation benefits from the use of HWPs and bioenergy at the end of their useful lifecycle⁶.

The lack of incentives for the use of forest biomass in energy generation creates a serious imbalance in the renewable energy market, and misses some of the lowest cost opportunities for carbon emissions abatement and a base load production opportunity relatively unique amongst alternative sources of renewable energy generation. AFPA recommends that either the ERF or RET recognise renewable heat as an eligible activity subject to appropriate integrity standards.

Auctioning

A clear set of operating rules for the 'reverse auctioning' process covering such issues as pre-qualification and bidding approaches, needs to be developed in consultation with industry to determine how the auction market operates. Clarity around auction design and contract details will be necessary pre-conditions for industry to bid in abatement opportunities.

A prequalification stage will allow a potential applicant to provide information to the Clean Energy Regulator (CER) on its proposed emission reduction bid, so that the CER can make an initial assessment of its likely viability, and provide feedback. This is consistent with the Green Paper reference to the CER potentially assessing the

⁵ International Energy Agency (IEA) (2009). Bioenergy – a Sustainable and Reliable Energy Source, Main Report. IEA Bioenergy: ExCo 2009-06.

⁶ United Nations Economic Commission for Europe/Food and Agriculture Organisation (UNECE/FAO), Proceedings of the Workshop on Harvested Wood Products in the Context of Climate Change Policies, 9-10 September 2008, United Nations Palais des Nations, Geneva, Switzerland.

commercial readiness of projects and the credibility of their emission reduction estimates prior to auction.

AFPA would support the initial auctions being conducted via a tender process as it allows market forces to determine the lowest cost abatement options through competition. This would be easily comprehended, administratively simple, and transparent. Confidence in a tender process, and hence the willingness of firms to bid in abatement opportunities, will be enhanced by a clear set of operating rules, covering such issues as pre-qualification and bidding approaches.

Safeguarding

Designing the safeguarding mechanism will be a complex task due to the variation in organisational structures, business focus and operational practices of entities operating in Australia. There should be comprehensive consultation with interested parties before the safeguarding arrangements take effect.

AFPA supports the need for the ERF to be flexible and based on a streamlined National Greenhouse and Energy Reporting Scheme (NGERS), where under the existing arrangements industry has gained experience and developed appropriate internal recording and reporting mechanisms.

In considering the structure of the ERF, AFPA notes that the need to set baselines will centre around two primary categories of abatement, which are those based on:

- an activity methodology; and
- a facility approach.

For a facility approach, the emission reduction could be estimated using NGERS methodologies. The activity methodology could be categorised as either deemed or project based, which would support the inclusion of models utilising the methodologies that already exist under the CFI, state based schemes and other energy efficiency schemes.

The activity based definition provides an opportunity to accredit and verify emissions reductions opportunities that are not subject to reporting under NGERS.

In determining baselines, there will always be fluctuations in emissions as a natural part of business and other non-policy factors. Baselines will need to provide an accurate reflection of an entities emissions profile over time, and AFPA supports broad coverage of the safeguarding mechanism to ensure the financial burden is shared equitably across the economy.

AFPA also supports the principle that the ERF should not be revenue raising and that 'best practice' guidelines will be relevant factors in providing incentives to reduce emissions above baseline levels.

Attachment

AFPA submission to Australian Government negotiators at the 19th Conference of the Parties to the United Nations Framework Convention on Climate Change