17 January 2014

Committee Secretary
Senate Standing Committee on Environment and Communications
PO Box 6100
Parliament House
CANBERRA ACT 2600

(e) ec.sen@aph.gov.au

Submission to the Senate Standing Committee on Environment and Communications (*SEC*) Inquiry into the Government's Direct Action Plan.

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment to the Senate Standing Committee on Environment and Communications Inquiry into the Government's Direct Action Plan.

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.

AFPA commends the Government on their determination to maintain the commitment of the previous Government to unconditionally reduce national GHG emissions by 5 per cent over 2000 levels by 2020. We also recognise that following the September 2013 election the Government was given a clear mandate to remove the current carbon tax.

AFPA strongly supports the removal of the current carbon tax and encourages the Government to act quickly, as it is in our national interest that businesses have policy certainty and clarity, as well as a level playing field with our major trading partners.

Forest Industries House • 24 Napier Close Deakin ACT 2600 • PO Box 239 Deakin West ACT 2600
Tel 02 6285 3833 • Fax 02 6285 3855 • enquiries@ausfpa.com.au • www.ausfpa.com.au

In adopting a Direct Action approach, it is important that Australia's climate policy does not disadvantage domestic operations by subjecting trade-exposed industries to costs not faced by competitors in other countries. Maintaining our trade competitiveness is crucial to ensuring Australia is able to meet our emissions reduction goals without significant adverse social and economic impacts.

Further, forest, wood and paper product companies (who are primarily price takers on world markets) are exposed to flow-on costs imposed throughout the supply chain (including the costs arising from the current carbon tax) with little to no chance of reasonably passing the imposed costs on through the supply chain.

The forest, wood and paper products industry is in a unique position in that it, with the right policy settings, could make a significant contribution to climate change policy and Australia's emission reduction targets. It is essential that the Direct Action Plan framework is well designed to fully promote this potential.

The Direct Action Plan has the capacity to deliver greenhouse gas emission reductions if all the major pathways for emissions abatement from forestry, wood processing and paper product manufacturing activities are recognised, including:

- the carbon sequestered in forests managed for wood and non-wood values;
- the carbon stored in harvested wood and paper 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 likely sources of low cost, large scale abatement under a well-designed Direct Action Plan.

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]

[1] 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.

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 (while not exhaustive), include:

- expansion of the forest plantation estate through support for new plantation establishment (discussed further below);
- improved silviculture and productivity (i.e. growth) in existing plantations and managed native forests;
- greater use of residues and thinnings from managed native forest and plantation forestry, as well as processing wood waste (i.e. residues) for bioenergy;
- recognition of carbon storage in the ever-growing pool of transformed wood and paper products;
- substitution of wood products for emissions intensive materials, such as concrete, steel, aluminium and plastics in new housing, multi-residential and commercial construction (e.g. greater use of solid and engineered wood products for structural and non-structural uses);
- avoided conversion of forest plantations back to agriculture post-harvest;
- revegetation of marginal agricultural 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 the extent and severity from future bushfires and associated emissions;
- renewable (i.e. bioenergy) heat capture and use in manufacturing processes;
- energy efficiency in the supply chain via the use of new machinery, fibre recycling and alternative energy sources; and
- contributing renewable energy into the national electricity grid (often in places that are distant from the current power generation sources and thereby having the additional benefit of reducing transmission losses and creating further base load).

Plantation potential

There are currently a little over 2 million hectares of plantation forests in Australia. These plantation forests occupy less than half of 1 per cent of total farmland (refer table below). A modest expansion of the plantation estate in key areas, close to existing plantation estates and processing facilities (e.g. the 'Green Triangle' region on the SA / Victorian border), could provide significant emission reductions.

AFPA estimates that an expansion of the plantation estate by 40,000 hectares per year over 10 years would both, assist to meet the future wood supply needs of industry, and contribute up to 9 million tonnes of annual emission offsets and potentially contribute up to 6% of Australia's emission reduction target from this measure alone (i.e. 9 Mt CO_2e of annual emission offsets compared to Australia's emission reduction target of 159 Mt CO_2e).

Such an expansion of 400,000 hectares would represent less than one tenth of one per cent of Australia's total farmland.

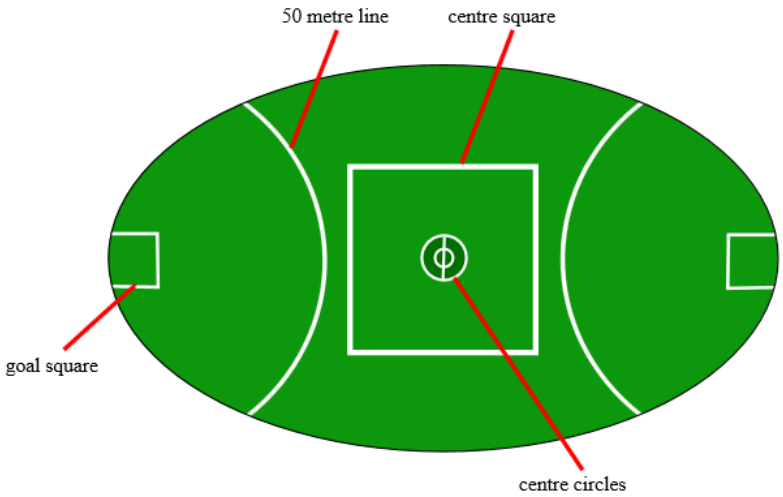
Putting this into perspective, if the total farmland area in Australia was represented by an average Australian Rules Football field, such a plantation expansion would occupy less than one fifth of the centre circle (refer Figure).

Table: Summary of farmland area in Australia

	Total farmland	Pasture	Crops	Plantations
			thousand hectares	
Australia	417,288	363,875	22,565	2,009
NSW	58,154	45,535	6,125	392
VIC	12,536	6,907	3,374	433
QLD	141,058	132,595	1,133	232
WA	47,076	39,403	7,823	413
SA	93,035	76,568	4,088	188
TAS	1,541	1,137	22	311
NT	63,888	61,716	64	40
			percent of total farmland in state	
Australia		87.2%	5.4%	0.5%
NSW		78.3%	10.5%	0.7%
VIC		55.1%	26.9%	3.5%
QLD		94.0%	0.8%	0.2%
WA		83.7%	16.6%	0.9%
SA		82.3%	4.4%	0.2%
TAS		73.8%	1.4%	20.2%
NT		96.6%	0.1%	0.1%

Source: ABARES.

Figure. Australian Rules Football field



Assuming an average stocking of 1100 trees per hectare at establishment and the current 2 million hectares of plantations, the industry is already managing more than 2.2 billion plantation trees in the Australian landscape.

In meeting Australia's emission reductions target, the Government has 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 native vegetation clearing for agriculture.

The most recent report of the National Greenhouse Gas Inventory identifies afforestation and reforestation activities provide an emission reduction equivalent to 16% of Australia's emissions reduction target (i.e. up to 26 Mt CO_2e of annual emission offsets compared to Australia's emission reduction target of 159 Mt CO_2e in 2010-11).

Forestry and forest product activities can play a major role in Australia's ongoing mitigation effort, and to the overall success of Direct Action (including the ERF) and Australia's ability to meet its stated emission reduction targets into the future.

However, it is critically important that the Emissions Reduction Fund (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. It must be noted that a number of previous regulatory impediments have limited the potential of these programs to provide a significant contribution to emission reduction targets. These impediments are discussed further below.

How the Direct Action Plan (Emissions Reduction Fund) can facilitate the development of abatement projects, including through expanding the Carbon Farming Initiative and drawing on the National Greenhouse and Energy Reporting Scheme.

Climate change policy understood to be retained under the Direct Action Plan, such as the CFI and Renewable Energy Target (RET), require significant regulatory reform and need to be redesigned to support the development of broader range of abatement projects, including those from the forest, wood and paper products industry.

AFPA recommends:

- addressing methodological issues within the current CFI, such as the blunt additionality requirement (i.e. common practice test) that inhibits many forestry based projects that would not otherwise occur;
- addressing the cumbersome and lengthy administrative processes for methods approval under the CFI,
- abolishing the negative and positive lists under the CFI to allow greater flexibility. The negative list is dominated by natural resource management restrictions, which are already dealt with under other existing environmental and planning legislation and regulation;
- broadening the scope of the CFI to encompass a range of land sector activities with verifiable emission reduction opportunities (e.g. bushfire mitigation);

- that payment mechanisms for longer term projects (such as forestry) provide early financial recognition of the carbon sequestered over the life of the project;
- removing unnecessary and perverse restrictions on the use of bioenergy from sustainably managed forests under the RET;
- recognising renewable heat, either under the RET and/or ERF, as an eligible abatement activity; and
- a focus on domestic credits in the ERF, so as to promote long term domestic abatement capacity and related co-benefits.

CFI methodological issues

The CFI in its current form has failed to deliver on the potential abatement benefits of forestry activities due in part to its narrow scope, unnecessary impediments and complex processes that have acted to deter investment.

AFPA recommends streamlining the administrative process for methods approval under the CFI. In its current form the CFI approval process is lengthy, complex and inflexible, supporting only a very narrow range of activities. It does not currently provide the economic drivers needed to promote the full suite of forestry abatement activities.

It is essential to reduce the time involved in methodology approvals and projects under the CFI. It can take over twelve months for the eligibility of an activity to be determined under the positive and negative list approach. (AFPA submitted a positive list proposal for long-rotation plantations in September 2012 that is still 'under review' by the Department of Environment).

Furthermore, once an activity is deemed as eligible the methodology needs to go through an extensive 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 significant direct cost burden on the proponent.

The CFI negative list includes a number of unnecessary natural resource management (NRM) provisions specifically targeted at restricting access to the CFI for 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. These arbitrary constraints duplicate existing NRM legislation and regulation, which already adequately account for these types of values, and should be removed on the basis of unnecessary green-tape. The simplest way to achieve this would be to abolish the lists (as discussed earlier).

AFPA supports the use of robust principles in determining approved methodologies, given the importance of measurable and verifiable projects for maintaining the integrity of the ERF and CFI systems.

There has been considerable uptake by industry participants of both sustainable forest management (SFM) and chain of custody (CoC) certification, under credible and independent certification standard–setting systems. This should be recognised in the methodology development as evidence of the integrity of the project.

AFPA has been concerned with the development of methodologies under the CFI. This includes the slow progress on the development of commercial plantation forestry methodologies, while at the same time fast-tracking the approved listing of 'avoided harvest' projects.

It should also be noted that AFPA has serious concerns relating to the inclusion of "avoided harvest projects", as it is likely to lead to perverse long-term mitigation outcomes. The underlying principle for the inclusion of 'avoided harvest' under the CFI is fundamentally flawed (as per the IPCC statement detailed on page 2 above).

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).

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 methodologies themselves. These lists simply add more administrative complexity, uncertainty and cost to the process.

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, most previous plantation development in Australia was undertaken by state governments using public funds as part of broader self-sufficiency and regional development goals.

It has been shown both in Australia and internationally that investment in plantation establishment rarely occurs without some level of government assistance. The Forest & Wood Products Australia (FWPA) paper 'Review of policies and investment models to support continued plantation investment in Australia' (de Fégely, Stephens, & Hansard, 2011) found that:

'The international review of plantation investment mechanisms found a number of trends in plantation development strategies and mechanisms that could be applied to Australia. Most countries provided generous taxation or direct incentives to accelerate plantation development and once critical mass was achieved the tax incentives and other measures tend to give way to enabling incentives based around attracting world scale processing which was illustrated in the case studies of Brazil and Uruguay.'

Given that private investment has been negligible without some level of government support, the current additionality requirements, which deem all private plantation investment to be 'common practice' under the 5 per cent rule, are a major barrier for forestry projects. A sensible approach to the rules for determining additionality under the CFI is needed, to support the involvement of the plantation forest sector.

A related issue for forestry projects has been the unique characteristics of this land asset class, which typically require high up-front costs and a long period until harvest returns. This has inhibited new private plantation investment, despite the longer term social and environmental benefits associated with carbon sequestration, land rehabilitation, salinity amelioration and erosion control.

For longer term projects such as forestry, AFPA recommends that payment mechanisms provide early recognition of the carbon sequestered over the life of the project. This would provide a meaningful economic driver for new projects and recognize the previous and future long term contributions from forestry to carbon sequestration and abatement at the project and national level.

Recognising renewable bioenergy under Direct Action

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 supply[2].

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, with bioenergy representing just ~ 0.9 per cent of electricity production with little being sourced from available woody biomass.

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. AFPA recommends that the ERF

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

recognise renewable heat as an eligible activity subject to appropriate integrity standards.

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 wood and paper products, and bioenergy at the end of their useful lifecycle[3].

The other major impediment is the exclusion under the RET of bioenergy produced from woody biomass sourced from sustainably managed natural forests, contrary to existing Regional Forest Agreements. This exclusion should be removed for the following reasons:

- it was based on a mistaken assumption that the combined incentives of a carbon price and the RET would see an increased use of native forests for energy, which is not substantiated. Waste is defined as a by-product of normal forestry operations, which are primarily for integrated sawlog and pulpwood production and incentives for energy generation will not replace these higher value market drivers;
- it is inconsistent with the international science of the carbon neutrality of biomass;
- it is counter-intuitive to, and inconsistent with, accepted, evidence-based international practice for achieving emissions reductions from biomass at low cost (e.g. in Europe a large proportion of biomass energy is sourced from sustainably managed natural forests and plantations);
- 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; and
- it ignores the extensive regulatory and policy framework for natural forests management in Australia, including State and Crown legislative environmental controls and codes of practice, as well as voluntary certification systems.

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. Given the inherent difficulties of transporting biomass longer distances there should be a focus on energy generation facilities in regional areas rich in biomass, including access to the national grid and renewable energy recognition.

The design and operation of a mechanism applying to emissions above the business as usual baseline.

[3] 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.

AFPA supports the need for the DAP and 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. Methodologies for assessing projects under the ERF need to adhere to robust integrity principles and be flexible in application, while being administratively simple in operation (noting the administrative problems with the current development of CFI methodologies).

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 the ERF will need to ensure that participants in the auctioning of below baseline activities have reasonable and flexible 'make-good' requirements if they fail to deliver the expected abatement.

Conclusion

The forest, wood and paper products industry is uniquely positioned to make a significant contribution to the climate change policy and Australia's emission reduction targets, given the right policy settings.

Thank you for the opportunity to provide comments to the SEC Inquiry on the Direct Action Plan. AFPA is available to discuss the issues raised and recommendations made in this submission in more detail.

Yours Sincerely

Ross Hampton
Chief Executive Officer