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**SUBMISSION TO SENATE SELECT COMMITTEE ON CLIMATE POLICY
INQUIRY INTO POLICIES RELATING TO CLIMATE CHANGE**

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A3P is the national representative body for the Australian plantation products and paper industry. Our 30 member companies have sales revenues of more than \$4 billion per annum and directly employ 13,500 people predominantly in rural and regional Australia in centres such as Mt Gambier, Morwell, Tumut, Albury, Oberon and Gympie.

A3P's structure mirrors the integrated nature of the plantation products and paper industry supply chain. Our industry is unique because the start of that supply chain is a tree, which stores carbon during growth. That carbon storage is maintained in finished forest products throughout their life and even after disposal. Forest fibre is recycled, forest and timber residues and by-products from manufacturing are used to produce renewable heat and power, and carbon storage in the forest stand is perpetuated through the continuous cycle of harvesting and replanting. This makes ours the only carbon positive industry in Australia. As a net store of carbon, the industry should remain vibrant with the introduction of climate change policy, such as an emissions trading scheme.

Emissions Trading

A3P supports the basic principles of emissions trading and the administrative allocation of permits to offset the loss of competitiveness in emissions-intensive trade-exposed (EITE) sectors of the economy. This is because, where imported products are competing with domestically produced products and are not exposed to a carbon cost, failure to allocate permits, or otherwise address this issue, would result in a loss of competitiveness for domestic industries that is unconnected with actual emissions intensity.

An emissions trading scheme (ETS) must be well designed in order to achieve emissions reductions without disadvantaging Australian domestic manufacturing against carbon-cost-free imports. A poorly designed ETS would do more harm than good; it would fail to achieve genuine reductions in emissions and come at a huge cost to Australians. It is imperative that the design of an Australian ETS is sound. The timing of the start of an ETS is also important but secondary to the issue of sound design. Contingent on the design, A3P supports the passing of ETS legislation through Parliament in a reasonable timeframe to confirm when an ETS will be implemented. This will provide the certainty required to engender a secure environment that will promote investment, allow businesses to plan ahead and to prepare adequately for the start of an ETS.

Global Response to Climate Change

The question of an appropriate emissions reduction target for Australia (however it might be achieved) cannot be answered without reference to international developments in climate change policy and action by other economies. Climate change is a global issue and demands a global response. Exactly what Australia's emissions reduction target is, is less important than how that target compares to international action.

For example, the proposed emissions reduction target of 5% from 2000 levels, if adopted in the absence of any further action by other countries, is a real concern because of the competitive disadvantage that the Australian economy would be forced to bear. It would ensure that global companies that are exposed to a carbon cost in Australia but not elsewhere, refrained from investing further in their Australian assets. Over time a sustained economic decline would set in as the impacts of the lack of investment were fully realised. Not only is this an unacceptable price to expect Australians to pay, it would result in no global environmental benefit, as local production shortfalls would be picked up elsewhere in the world (typically where there is no carbon cost to factor into production). If Australia were to commit to the 5% target in the absence of international agreement, the Australian pulp & paper industry, for example, would face a share of the cost of meeting that target. Without similar costs in trade competing countries, the profitability of Australian pulp & paper manufacturing businesses would be severely eroded. This will be the case even if entities are eligible for the EITE measure, which offsets a part, but not all, of the costs of the CPRS.

Conversely, were the rest of the world to act on climate change and put a price on emissions, then the fairness of an Australian reduction target would be determined by ensuring it is equitable with action taken by other countries – in this case the actual target is immaterial, as long as it is set in the context of comprehensive global action. If the rest of the world is paying for emissions as well, then concerns about competitive disadvantage are not relevant. Australian industries are reliant on the Government to ensure that the right balance between international action and Australian commitments is struck.

Carbon in Forest Products

The forest products industry is an integral part of the forestry supply chain, and should be an important part of any climate change response. It processes raw fibre taken from the forest into long-lived products such as solid timber, medium density fibreboard (MDF) and particleboard. This is the real benefit of sustainable production forests. Carbon stored during forest growth is maintained in the finished product (both during use and, as research has demonstrated, after disposal). At the same time the harvested plantation is re-established to begin a new cycle of growth, harvesting and processing. Harvest plantations are therefore "carbon pumps" that cycle carbon from the atmosphere into the built environment, where the correct policy settings (e.g. incentives to reuse and recycle forest products) can retain that carbon storage and, post-use, encourage utilisation for energy production (which displaces fossil fuel use). Over the long term, therefore, establishing and maintaining sustainable production forests makes good environmental sense, but without policies to recognise the carbon storage in wood products, the incentives are perversely weighted toward the establishment of unharvested plantations. In the framework of a comprehensive climate change mitigation strategy, there is room for both "permanent" plantations and versatile "carbon pump" production forests which cycle timber products into the built environment and perpetuate carbon storage. Climate change policy needs to promote these benefits.

Climate Change Policy Development in Australia

A3P will continue working constructively within Government processes to implement the Carbon Pollution Reduction Scheme (CPRS). The design of the CPRS set out in the White Paper requires a number of small but fundamental changes to improve certain elements of the Scheme, so that it sends a carbon price signal to consumers without endangering the future of domestic manufacturing industries by disadvantaging them against carbon cost free imports. A well designed scheme will also enhance our carbon-positive industry and exploit the benefits of carbon storage and sustainable renewable energy feedstock it can provide.

A3P's major concern with the proposed CPRS is that the whole supply chain will suffer if Australian pulp & paper and panel board manufacturing are disadvantaged through the introduction of a carbon cost when a similar cost is not borne by international competitors. The importance of pulp & paper and panel board manufacturing extend beyond the employment, investment and value-adding they foster directly, to their role as a driver for the same in other parts of the forest and forest products industry: Unless the competitiveness of pulp & paper and panel board manufacturing are maintained, the entire supply chain will be affected. This was highlighted in A3P's submission to the Senate Economics Committee.

Reforestation and Forest Products in the CPRS

The CPRS makes provision for eligible plantations to be opted into the Scheme to generate permits from reforestation. In the case of production plantation growers, the ability to opt in to the Scheme and contribute to the national greenhouse gas abatement effort will depend on the health of the entire industry, including pulp & paper and panel board manufacturing. The flow-on impacts of a poorly designed EITE measure would far outweigh any potential benefit from opting in under the reforestation provisions of the Scheme.

Furthermore, the current proposed rules only recognise carbon storage as the forest grows; if a plantation is harvested, the proposed rules assume that 100% of carbon stored during tree growth is released back to the atmosphere. This is clearly not the case. The CPRS should reflect the genuine fate of carbon in harvested plantations by recognising carbon stored in harvested wood products. A3P supports the inclusion of harvested wood products in the CPRS and believes that the Government should lead the international debate by demonstrating how this can be done. A3P would welcome further opportunities to work constructively with the Government to achieve this outcome.

The sections of the Bill dealing with reforestation are quite detailed, particularly in comparison to its EITE aspects. Overall, the legislation appears to be extremely stringent and exact in its requirements, in some cases limiting the ability of commercial forces to operate in a way that allows the market to find the best, most innovative business models. There are several design elements which, if they remain, may well discourage entities from opting in to the Scheme. These include:

- *Maintenance obligation*

The draft legislation indicates that, in the event of non-compliance with the relinquishment obligation where it is enforced, an obligation to maintain or replant a forest may come into force. Because this would be imposed on the owner of the forestry right and not the owner of the carbon right (i.e. the eligible entity) it will diminish the attractiveness of participation where the carbon right and forestry right are not owned by the same person/entity; this may unnecessarily limit the range of business models that will be available to potential participants.

The maintenance obligation has no comparable precedent elsewhere in the Scheme. If a liable entity fails to surrender sufficient permits there is no requirement on a separate entity to make good; parties in breach of Scheme obligations are pursued but there is no recourse on a third party.

It has been argued that forestry permits, because they are above the Scheme cap, need to guarantee the permanence of the sequestration that underpins them to be fungible; put simply, the carbon that was stored to create the permit must actually exist. While this is reasonable, the duty to make good should rest with the entity that made income by selling permits, that is the owner of the carbon right. In the case of a liable entity under the Scheme that is in non-compliance, the situation is no different. The permits that the liable entity should have purchased to cover their emissions are still on the market and available for another entity to buy; there is therefore a potential for emissions to occur “above the cap”.

- *Consent of all interest holders and registration of carbon right on land title*
These requirements imply that there is a liability on all parties who have an interest in the land – but only the carbon right owner is able to profit by opting in to the Scheme. By prescribing *how* these parties interact with one another, the Scheme will be interfering in the free working of commercial forces and entities may be prevented from making commercial arrangements that best suit their individual businesses.
- *Use of NCAT for growth estimates and reporting*
It seems extraordinary for the legislation to compel entities to use a single software program (NCAT) for the estimation of carbon stocks; this goes against the Scheme’s broad objective of encouraging innovation and advancement to achieve a low carbon economy. Requiring independent assurance would be appropriate to guarantee the credibility of alternative programs (or improved data), but it should be possible for eligible reforestation entities to use tools other than NCAT to generate carbon storage estimates.
- *5 year limit to back-claiming carbon storage*
This limit could prove problematic, especially for small growers. Provided the sequestration took place after Scheme commencement and complies with all other requirements, there is no reason to limit the ability to claim credits for tree growth retrospectively since the removal would be available to Australia’s national accounts. Furthermore all reforestation credits will be issued in arrears, so there can be no great difference between credits claimed more than 5 years after sequestration and those claimed earlier.
- *130 year permanence obligation*
The permanence obligation, while necessary, appears to be unnecessarily arduous, at 130 years from the issue of the first permit for a forest stand. This is an unexplained deviation from the White Paper. The 130 year figure appears based on a traditional (outdated) 30-year softwood regime, plus 100 years. However the most common plantation model that has attracted investment in recent years has been much shorter pulpwood plantings, and the Scheme should support the development of new plantation models. For an environmental planting, for example, which will store carbon (and generate permits) for many years, the proposed permanence obligation would actually result in many of the credits being underwritten by sequestration in the planted forest for significantly less than 100 years.

While some of these points may be of small particular concern, they create an onerous and ambiguous package for potential participants. Many production plantation growers may decide that there is not enough incentive to opt in to the Scheme; some requirements may hamper the potential for more flexible business models to participate.

EITE measure in the CPRS

The EITE measure should be designed to ensure that trade-exposed and emissions-intensive industries such as pulp & paper and panel board manufacturing, which are an integral part of our carbon-positive industry, are not disadvantaged with the introduction of a carbon cost in Australia ahead of other countries. The design proposed in the White Paper requires a number of small but fundamental changes to achieve the objective of preventing carbon leakage:

- The apparent cap on the allocation of permits to EITE industries (or activities) is inconsistent with the objective of preventing carbon leakage. This restrictive allocation is artificially circumscribing the extent of assistance available under the EITE measure. **The limits of allocation to EITE activities should be defined by the objective of preventing carbon leakage from Australia for no environmental benefit.**
- The thresholds for assistance (90% and 60%) build into the design of the EITE measure material disadvantages for activities falling just below one of the thresholds. Furthermore, these thresholds are based purely on emissions intensity; the inability to absorb cost increases is determined by trade exposure, and it is not quantitative emissions but the *proportion* of the cost increase that is relevant. **All EITE activities should receive a permit allocation of at least 90% to reflect that the comparative burden of cost increases associated with the carbon price will be broadly similar across all EITE industries.**
- The proposed decay of permit allocation is equally problematic because, no matter what the rate of decay is, it would not be linked to real changes in global market conditions or comparable effort by other economies. The proposed decay rate would breach the EITE measure's objective by placing an increasing cost burden on entities conducting EITE activities based on an arbitrary figure. **There should be no predetermined decay of permit allocation. The level of allocation should be assessed in the regular reviews of the EITE measure, and changes in allocation should take into account comparable effort by competitor economies and any sectoral agreements that may exist.**

CPRS and RET

A3P supports the development of sensible climate change policy to reduce emissions. As a global issue, however, the only sensible response is also global. Any policy to address Australia's growth in emissions, including the CPRS, must be balanced against action by other countries. Any policy, including emissions trading, will only work if comparable action is taken by other countries – this is the only way that the desired environmental outcome can be achieved. Taking unilateral action potentially exposes Australia to unacceptable risks and will have no net effect on global emissions. Care should be taken with the design of the CPRS to ensure it is sound and does not expose the Australian economy to costs that will make it uncompetitive and lead to losses of investment.

This also applies to the expanded Renewable Energy Target (RET) Scheme. The RET target of 20% renewable electricity by 2020, is a massive expansion of the current target. The more affordable renewable energy options (e.g. incremental increase of hydro electricity) have been exhausted and the level of renewable electricity generation is expected to increase substantially in a very short time. The scheme is a temporary measure which will involve considerable costs, at a time when the CPRS will also push up the price of electricity by requiring permits to be purchased for greenhouse gas emissions in covered sectors. It makes no sense to develop and implement the CPRS and the RET in isolation from each other, or in isolation from international developments in climate change policy.

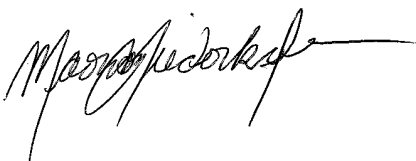
The design of the RET is likely to favour renewable energy technologies which are easy to deploy quickly (primarily wind energy); these facilities may well require a continuation of

subsidies, or shut down, as the RET is phased out. As an industry development policy, therefore, the RET will be inefficient. It is moreover restricted to renewable electricity and does not provide industry development incentives for the advancement of biofuels technologies. In addition, once the CPRS introduces a cost on carbon there should be no need for a further market measure to encourage the growth of the renewable energy sector. Renewable energy alternatives will become more economically viable as the carbon cost raises the price of fossil-fuel energy.

Introducing the RET as well as the CPRS, aside from being unnecessary and inefficient, has the potential to create serious competitiveness issues for trade-exposed industries with high emissions, such as pulp & paper and panel boards. Because the CPRS and the RET are being developed in isolation from each other, no consideration has been given to the cumulative impact of both measures on Australian industries. Assistance under one scheme alone, or restrictive assistance under both schemes, will not be enough to avoid extremely damaging outcomes in EITE industries. EITE and RATE measures would be compromised and come at a huge cost to Australian taxpayers, both in the form of the (inadequate) assistance that was given, and in the loss of manufacturing capacity, and employment, across many industries in the economy. EITE and RATE measures must be developed alongside one another; a harmonisation between the CPRS and the RET would enable the Government to take account of the impacts of both schemes on compliant parties, especially EITE industries.

Thank you for considering our comments. A3P would welcome the opportunity to take part in further discussions. If you have any questions please contact Marion Niederkofler on 02 6273 8111 or at marion.niederkofler@a3p.asn.au

Yours sincerely



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