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**SUBMISSION TO SENATE STANDING COMMITTEE ON ECONOMICS
INQUIRY INTO CARBON POLLUTION REDUCTION SCHEME BILL 2009**

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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 an emissions trading scheme. Expansion of commercial timber plantations, and wood and paper product manufacturing, would provide a net benefit from a climate change perspective, as well as delivering socio-economic and other environmental outcomes.

A3P is a member of the Australian Industry Greenhouse Network (AIGN) and supports its submission to the CPRS draft Bills.

A3P's major concern with the proposed Carbon Pollution Reduction Scheme (CPRS) and the expanded Renewable Energy Target (RET) Scheme, is that the whole supply chain will suffer if pulp & paper and panel board manufacturing are disadvantaged through the introduction of a carbon cost, and an increase in the price of electricity, when similar costs are 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:

- Pulp & paper provides a major market for small diameter logs from "thinnings" – selective harvest events which are essential to enable the growth of structural grade logs. The sale of thinnings represents almost half the gross income from a conventional plantation, and more than half the volume of timber grown. Pulp & paper is also a major market for defective and small logs which cannot be used for structural timber production, from later harvest events.
- Panel board manufacturers purchase a substantial proportion of their inputs from growers and are an important market for thinnings and small, defective logs.

- The demand for, and economic returns from, low quality logs, is an essential driver in investment decisions by the plantation growing sector, both for the establishment of new plantations and reestablishment following harvest.
- The demand for pulp logs is essential to the availability of sawlogs, which form the basis of wood supply to the sawmilling sector. Without commercial returns from pulp logs, the economic viability of plantations would come under question and the supply (and price) of sawlogs would be adversely affected.
- Residues and offcuts from the sawmill are commonly used in panel board production. Paper manufacturers also purchase sawmill waste; the ability to sell this fibre is crucial to the profitability of many sawmilling operations.
- The pulp & paper industry has invested in, and maintains, the infrastructure that underpins Australia's high rates of paper recycling (approximately 50%), and provides the market that drives the collection of waste paper. If paper manufacturing in Australia contracts, it will have serious consequences for the viability of recycling activity.
- Recovered timber (e.g. post-demolition) can also be recycled by being used in panel board manufacturing.
- Many rural and regional contractor, support and service businesses including harvesting, transport, mechanics, fuel supply and trades, depend on pulp & paper, panel board and other forestry-based sectors for their profitability.

For all these reasons, the future viability of pulp & paper and panel board manufacturing is of critical concern to all of A3P's member companies. Unless the competitiveness of pulp & paper and panel board manufacturing is maintained, the entire supply chain will be affected.

Measure for Emissions-Intensive Trade-Exposed (EITE) Industries

The design of the EITE measure will be critical in determining its effectiveness for maintaining the competitiveness of pulp & paper and panel board manufacturing in Australia. The underlying concern for Australian industries has been well documented; it can be summed up briefly as the cost burden that Australian businesses would bear, through policies like the CPRS and the RET, if equivalent costs are not imposed on competitors in other countries. The locus of the problem is one of cost pass-through, which will be prohibited by natural market forces in trade-exposed sectors like pulp & paper and panel boards. The Government has already acknowledged that a resolution to this problem is required – a minimisation of costs until equivalent costs are imposed on competitors. Furthermore, this problem is a transitional matter; once equivalency in costs is again established, the issue will be nullified.

Given the structure of this transitional issue, the most effective method for addressing it would be through an approach to EITE industries based on trade exposure. By recognising trade exposure (rather than emissions intensity) as the ultimate cause of the inequity that the EITE measure is seeking to redress, assistance would be targeted at those businesses and industries that, with the introduction of a carbon cost and other increased energy costs, would be most vulnerable to becoming unprofitable. The AIGN submission explores a trade-exposed focused design for the EITE measure for maintaining the competitiveness of Australian industries.

The desired outcome may also be achievable by adjusting the design that was laid out in the White Paper, which is based on emissions intensity. This approach is by its nature less suited to addressing disparities in the costs of manufacturing caused by international trade because it is based on emissions intensity. The AIGN submission also deals with this approach.

A3P supports the basic principles of emissions trading and the administrative allocation of permits to offset the loss of competitiveness in EITE sectors that is not connected to actual emissions intensity. But it is not possible to specifically support the proposed EITE measure for the CPRS without access to design detail. A3P will continue to work constructively within Government processes for implementation of the CPRS; we hope that there will be opportunities in this process for extensive consultation and feedback on the EITE measure. The design proposed in the White Paper would require a number of small but fundamental changes to achieve the objective of preventing carbon leakage:

- The proposed decay of permit allocation is 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/decay in allocation should be informed by comparable effort by competitor economies and any sectoral agreements that may exist.
- The thresholds for assistance (94.5% and 66%) 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; 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 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.
- Because the CPRS and the RET are being developed in isolation from each other, not enough 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 jointly; 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.

Reforestation

A3P's members are also interested in the opportunities that may be created for reforestation under the CPRS. Provided the Scheme is well designed, the forest growing sector can provide an important, positive contribution to emissions mitigation and abatement by sequestering carbon in new forests, displacing the use of emissions-intensive products with timber (which is less emissions-intensive to produce and also contains carbon), and contributing to Australia's renewable energy mix through bioenergy and biofuels. The proposal in the draft Bill is only to 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.

Importantly, the ability of plantation growers to contribute to the national greenhouse gas abatement effort by generating permits within the CPRS will require the continuation of healthy pulp & paper and panel board industries to maintain demand and underscore the commercial viability of the existing (and expanding) plantation estate. 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.

The sections of the Bill dealing with reforestation are quite detailed, particularly in comparison to its EITE aspects. The Government has indicated that it intends to pass several amendments to the current draft legislation. These amendments have only recently been seen by stakeholders. Due to the extremely tight timeline on drafting amendments and the passage of the CPRS Bill through Parliament, virtually no time has been left for consultation on some very important features of the proposed rules.

While satisfied that Government officials are seeking to openly engage with stakeholders on the Reforestation provision, A3P is concerned that there will not be enough time to stress-test these sections of the legislation before it is passed. A3P urges the Government to allow enough time for consultation and adjustments to ensure a workable Reforestation opt-in provision that will not unintentionally hamper participation by plantation growers.

There are several aspects of the proposed Reforestation provision that A3P would like further dialogue with the Government on. These include (but are not necessarily limited to) the following:

- **Reforestation Regulations**

It will be difficult to progress further with this legislation without access to a draft version of the relevant regulations. The detailed design rules, including aspects such as the crediting approach, definitions of, e.g. forest stands and ‘human-induced reforestation’, and the level at which obligations will be applied, have a direct bearing on the interpretation of parts of the legislation. Without access to this level of detail it will be very complicated to provide meaningful feedback on the current draft Bill.

- **Description of units generated through reforestation**

Units issued to eligible entities are described as “free units” or “free Australian emissions units”. This is incongruous with the requirements placed on the generation of these units, which involve investments of time and capital to realise. A3P requests that, to avoid any misunderstandings, these units are simply referred to as “Australian emissions units” throughout.

- **Forest Maintenance Obligation**

This section has been significantly altered; A3P seeks further consultation to discuss these changes, including the scope of the obligation (i.e. in what situations it may be imposed), as well as the “forest restoration order” and its applicability.

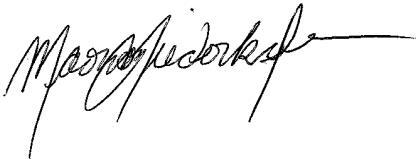
- **Reforestation Register**

A3P has concerns about the ease with which specific information on reforestation projects will be able to be accessible to the general public (including names, precise location and other information). A3P supports the provision of enough information to enable price discovery in the market, but urges the Government to provide appropriate confidentiality in relation to information which would only be required by prospective buyers of land that is involved in a reforestation project.

A3P is committed to engaging constructively with the Government to develop practical, fair rules for Reforestation. It is important that potential participants are not deterred from entering the Scheme due to artificial barriers created by onerous obligations. The mere size of the section of the draft legislation dealing with reforestation may raise concerns among plantation growers about the practicality of pursuing this opportunity.

Thank you for considering our comments on the CPRS Bill. 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

A handwritten signature in black ink, appearing to read 'Marion Niederkofler', with a long horizontal flourish extending to the right.

Marion Niederkofler
Manager Climate Change Policy