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Submissions – CFI/ERF Review
Climate Change Authority
GPO Box 787
CANBERRA ACT 2601
submissions@climatechangeauthority.gov.au

AFPA submission to the Climate Change Authority’s ‘Review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund’.

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission to the Climate Change Authority’s ‘Review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund’.

AFPA recognises the proud social, economic and environmental record of the Australian forest products industry and the inherent environmental strengths of these products as a renewable resource with a high propensity for recycling, a low carbon footprint and responsible sourcing from sustainably managed forests and fibre waste streams.

AFPA actively promotes the important role the forest products industry can play in reducing greenhouse gas emissions and assisting ambitious national and regional climate change policies to transition to a carbon constrained future.

In the attached submission AFPA addresses: climate change policy principles; current Australian Government emission reduction policies (CFI and the ERF); international credits; and forest, wood and paper product industry opportunities.

The major pathways for emissions abatement from the forest products industry include:

- the carbon sequestered in growing forests;
- the carbon stored in durable wood and paper products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre based products that have low embodied energy; and
- the use of woody biomass for renewable energy (including for thermal energy and biofuels), thereby displacing fossil fuels.

AFPA urges the Government and policy makers to incorporate these emission abatement opportunities in future climate change, industry and energy policy reforms (including the CFI/ERF) to better capture their benefits and incentivise the providers of the emissions abatement.

The Senior Policy Manager dealing with this matter in AFPA is Mr Gavin Matthew on (02) 6285 3833 or gavin.matthew@ausfpa.com.au

Yours sincerely

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

Ross Hampton
Chief Executive Officer

AFPA SUBMISSION TO THE CLIMATE CHANGE AUTHORITY'S 'REVIEW OF THE CARBON FARMING INITIATIVE LEGISLATION AND THE EMISSIONS REDUCTION FUND'.

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission to the Climate Change Authority's 'Review of the Carbon Farming Initiative (CFI) Legislation and the Emissions Reduction Fund (ERF)'.

AFPA is the peak national industry body representing the Australian forest, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

The forest, wood and paper products industry is Australia's 6th largest manufacturing industry with an annual turnover over \$23 billion. It contributes around 0.5% to Australia's gross domestic product and 6.6% of manufacturing output.

Trees are a sustainable biological resource that produce renewable wood and paper products including the development of new and innovative products such as biomaterials, biochemicals and bioenergy. They also provide a range of environmental benefits, including the carbon stored over time in the growing forests and harvested products. In addition, relative to alternative materials such as steel, aluminium and concrete, wood products have very low embodied energy, with very low fossil fuel energy inputs used in their production.

AFPA recognises the proud social, economic and environmental record of the Australian forest products industry and the inherent environmental strengths of these products as a renewable resource with a high propensity for recycling, a low carbon footprint and responsible sourcing from sustainably managed forests and fibre waste streams. AFPA actively promotes the important role the forest products industry can play in reducing greenhouse gas emissions and assisting ambitious national and regional climate change policies to transition to a carbon constrained future.

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 (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.

The major pathways for emissions abatement from the forest products industry include:

- the carbon sequestered in growing forests;
- the carbon stored in durable wood and paper products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre based products that have low embodied energy; and
- the use of woody biomass for renewable energy (including for thermal energy and biofuels), thereby displacing fossil fuels.

AFPA urges the Government and policy makers to incorporate these emission abatement opportunities in future climate change, industry and energy policy reforms (including the CFI/ERF) to better capture their benefits and incentivise the providers of the emissions abatement.

1. CLIMATE CHANGE POLICY PRINCIPLES

In a perfect market, a price (or cost) on carbon emissions should encourage substitution for low emissions products such as timber, paper, bio-products and renewable energy. However, the design of climate policies can be difficult given the existence of ‘imperfect markets’ with carbon leakage – that is, a decrease in domestic competitiveness, and an increase in imports and emissions from overseas products without a comparable carbon cost.

Climate change policies with their associated costs and/or incentives must be complementary and not overlap (such as the potential interactions between an Emissions Trading Scheme (ETS) and a Renewable Energy Target (RET)). Complementarity of, and equity between, existing National and State government policies must also be addressed when any new policy or policy reforms are considered.

AFPA supports climate change policy mechanisms, whether a voluntary auction system such as the ERF, or alternative mechanisms such as an Emissions Trading Scheme (ETS), so long as the following broad policy principles are adopted:

- *a consultative approach is adopted to the development of new policies;*
- *there is full market recognition of the multiple emission abatement benefits from carbon sequestration, carbon storage and product substitution from the forest products value chain;*
- *priority is given to addressing the lack of methodologies for wood plantations and naturally regenerating ‘working forests’ and their resulting products in the CFI or equivalent land sector crediting mechanism;*
- *the design of any mechanism should:*
 - *be consistent with the strategic national approach;*
 - *ensure and maintain the international competitiveness of Australian export and import competing industries;*
 - *ensure that the burden of emissions reductions is borne equitably across the economy;*

- *be underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements;*
- *deal responsibly with the adverse cost impacts on domestic producers pending a comparable carbon cost on competing imports (i.e. there needs to be commensurate carbon policies from overseas competitors);*
- *ensure that there is appropriate transitional assistance for trade-exposed sectors pending a comparable carbon cost on imports;*
- *establish stable and long term climate policy settings to provide greater investment certainty; and*
- *cap the use of international credits to allow for a reasonable balance between promoting domestic abatement and minimising overall carbon costs.*

2. COMMENT ON CURRENT EMISSIONS REDUCTION POLICIES

a. Emissions Reduction Fund (ERF) and the Carbon Farming Initiative (CFI)

The existing CFI negative list and various CFI Rule provisions remain a major impediment preventing uptake by many forestry and afforestation projects in the ERF. It imposes unnecessary constraints that effectively exclude forestry projects from the ERF, such as the restrictions on tree planting in regions with average annual rainfall above 600 mm. These issues are already addressed under other natural resource management (NRM) legislation and go beyond the regulatory mandate of the CFI and ERF.

Access to the ERF should be based on the merits of the activity and should not duplicate other NRM regulation or provide additional red tape that is unrelated to carbon. Removing or effectively addressing the negative list and limiting CFI Rule provisions would enable forestry and afforestation projects to participate fully in the ERF and make a substantial positive contribution to meeting Australia's emission reduction targets.

Australia's emission reductions continue to rely 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 emission offset of around 4.6% of Australia's total emission of 536 million tonnes, mainly from the approximately 800,000 ha of Kyoto compliant plantations (i.e. those established on cleared agricultural land since 1990). It is important to acknowledge that the commercial plantation estates offer one of the most efficient and effective approaches for large-scale reductions in net carbon emissions over the longer term.

AFPA believes that, with the right policy settings, the forest, wood and paper products industry has the potential to play an even greater role in in Australia's ongoing mitigation effort. Indeed, the inclusion of commercial forestry activities is essential to the overall success of the ERF and the ability to meet Australia's emission reduction targets into the future.

Also, to promote the broader participation of forestry plantation projects, AFPA recommends the **existing 10-year contract period in the ERF be extended to 15 years or longer** for specific classes of projects or activity types. Forestry and reforestation projects have emissions reductions benefits and financial paybacks well beyond ten years. A 10-year maximum investment will stifle private plantation investment, despite their potential to generate higher overall abatement and lower costs per unit of abatement over the medium term.

Sectoral approach to low cost abatement and co-benefits. The Government's stated intent (first detailed in the previous ERF Green Paper) is to achieve the lowest cost of abatement, a sound public policy principle in terms of achieving economic efficiency and cost-effective climate change mitigation. However, in targeting low cost abatement within the Australian economy, the ERF was 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'.

AFPA urges 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.

Reform to the existing ERF plantation forestry method. Even with the recently approved ERF plantation forestry method, potential new forest plantation projects are defined as 'a specified tree planting' and are currently excluded from consideration as an eligible offset project due to the existing 600mm rainfall zone restriction detailed in the [Carbon Credits \(Carbon Farming Initiative\) Regulations 2011 \(CFI Regulations\)](#). Unless a State government water assessment has been undertaken and communicated to the CER. Note, the majority of commercial plantations in Australia are planted in annual rainfall zones of 600mm and above.

The CFI rainfall zone restrictions are arbitrary, as there is no scientific basis for the setting a rainfall zone threshold at 600mm annual average rainfall. Further these rainfall zone restrictions are not applied to environmental plantings under the CFI rules. The 600mm annual rainfall zone restriction effectively duplicates provisions contained in the National Water Initiative (NWI).

AFPA urges the Government and policy makers that either this unnecessary constraint is removed or these State government water assessment process be undertaken initially within identified industry hubs in existing forest plantation regions around Australia to allow new plantation projects to proceed.

Other future reviews/reforms should include:

- Potential new plantings of African Mahogany in the Northern Territory NPI region and Indian Sandalwood in other NPI regions, are excluded, primarily (it is assumed) because these are regions that are considered, by the Department of Environment, 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. The exclusion is a blunt tool instead of undertaking an assessment of additionality.
- The necessity of the existing 7-year period without plantation forest (fallow period) on the project area to establish that it is eligible land under the ERF plantation forestry method.

Reform to existing ERF farm forestry and ERF industrial methods. Simple, effective, broadly applicable and low-cost methodologies could allow farm forestry and forest product manufacturing companies to participate in the ERF and allow the Government to realise significant carbon storage potential.

The existing Farm Forestry ERF method (i.e. [The Carbon Credits \(Carbon Farming Initiative\) \(Measurement Based Methods for New Farm Forestry Plantations\) Methodology Determination 2014](#)) can be used by landholders who want to establish a permanent planting of trees or a harvest plantation on land used for grazing or cropping. Projects can be carried out on areas of land up to 100 hectares or 30 per cent of farm area, whichever is smaller (where annual rainfall is greater than 400 mm) or 300 hectares or 30 per cent of farm area, whichever is smaller (where annual rainfall less than 400 mm).

Due to minimal uptake of the ERF Farm Forestry method by project proponents since its inception, AFPA is urging the Government and policy makers to review the method framework and its limitations to promote increased uptake (including the 400mm annual rainfall/area constraint, inclusion of harvested wood products, and increased flexibility to collectively aggregate projects to achieve better scale).

An industrial electricity and fuel efficiency project involves undertaking activities to reduce emissions from (usually large-scale) equipment that consumes electricity or fuel. Projects may involve a broad range of activities that reduce direct fuel combustion emissions and emissions from energy use. Projects include upgrades to boilers, compressed air systems and heating, ventilation and cooling systems, or the installation of variable speed drives.

AFPA acknowledges the ongoing efforts to reduce the complexity and red-tape associated with the current process of developing methodologies and gaining approval for carbon abatement projects under the CFI and ERF. However, areas that need further reform and streamlining include:

- the carbon price points coupled with length of contract and associated requirements currently do not adequately incentivise many types of potential projects, including industrial based projects;
- burdensome transaction and audit costs;
- effort for key staff to apply for, and manage carbon contracts;
- overly burdensome make good provisions and risk; and
- minimal recognition of the scale and complexity of industrial processes.

Potential reforms include: utilising a Government-funded auditor; developing cost effective audit fast-tracks; reducing burdensome transaction costs; and increasing flexibility of the framework to better reflect industrial processes.

Ongoing development of new ERF methods. AFPA continues to work with the forest products industry and Government department representatives on other potential forestry-related CFI methodologies including harvested wood products in landfill, enhanced sustainably managed natural forests, use of wood harvest and processing residues, and low emissions-intensive wood building material substitution.

b. ERF Safeguard Mechanism

The ERF safeguard mechanism is designed to ensure that emissions reductions purchased through the Emissions Reduction Fund (ERF) are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy. It commenced on 1 July 2016. The ERF safeguard mechanism applies to facilities with direct scope 1 emissions of more than 100,000 tonnes of carbon dioxide equivalence (tCO₂-e) per year.

The Government policy position on the ERF Safeguard Mechanism is to ensure that emissions reductions purchased by the Government are not offset by significant rises in emissions elsewhere in the economy; and that it is not to be 'revenue raising' and will 'allow businesses to continue ordinary operations without penalty'.

AFPA continues to consult with the Department of Environment and the Clean Energy Regulator on its implementation and any potential changes in policy focus.

AFPA does not include comment on the ERF Safeguard Mechanism in this submission. AFPA's previous comments can be found on our [website under 'submissions'](#).

c. International Credits

Following the Paris Agreement, the rules for trading international credits after 2020 are yet to be finalised – these discussions continue. It is important to alleviate cost pressures on domestic industry while at the same time providing incentives for domestic action. Forest, wood and paper product industries have significant potential to store carbon and reduce emissions.

If Australia is to remain competitive in international markets, it is important that our policies do not disadvantage domestic wood and paper product manufacturing operations by subjecting these trade-exposed industries to costs not faced by competitors in other countries. Additionally, for domestic manufacturing facilities to plan investments and fully understand the net cost of abatement today and into the future, the price of credits needs to be relatively stable and predictable over the long term.

AFPA urges the Government and policy makers:

- *to continue its active participation in international discussions on trading credible and high-quality credits under Article 6 of the Paris Agreement with an Australian industry focus; and*
- *that there should be an appropriate focus on domestic credits (including a cap on credible and high quality international credits) to allow for a reasonable balance between promoting domestic abatement and investment, and minimising overall carbon costs to industry.*

3. OPPORTUNITY - FOREST INDUSTRIES AND CARBON LCA BENEFITS

Land based emission reduction schemes such as the CFI and ERF need to recognise the full life cycle benefits from harvested wood and paper products in addition to the carbon stored in trees. A full life-cycle analysis of forest products will also consider their relatively low embodied energy and clarify the advantages of using them to substitute for other materials and/or other wood product imports.

As the only carbon positive sector of the Australian economy, the forest products industry should be at the forefront of a renewable and sustainable economy. However, the policy environment for enabling carbon based opportunities to be realised fully is either yet to be developed or is impeded by the existing regulatory environment.

Given the role of harvested wood and paper products (HWPs) as a carbon store and their substitution effects, there is a need for more appropriate implementation of life cycle inventory (LCI) and life cycle assessment (LCA) with respect to procurement of building materials and paper products. By tracking the inputs and outputs for each stage of production and consumption, the LCI of a product can be traced from cradle-to-grave, including in-service, recycling and landfill.

Full life cycle accounting can identify and compare the low embodied energy of wood and paper products versus other more carbon-intensive products which is important in terms of the use of wood in reducing emissions in housing and non-residential construction¹.

To realise some of the forest industry's carbon-based emissions reduction opportunities, AFPA urges the Government to:

- a) *address the policy and regulatory impediments to carbon-based opportunities for the forestry sector, such as developing suitable methodologies in the Carbon Farming Initiative (CFI) and Emissions Reduction Fund (ERF);*
- b) *take a holistic view of the carbon emission abatement potential of naturally regenerated forests and plantations recognising their multiple carbon sequestration and product substitution benefits;*
- c) *provide a policy framework for carbon that does not attempt to regulate other land use issues (e.g. water, biodiversity, community issues), which are more appropriately addressed elsewhere in public regulation;*
- d) *amend existing regulations to value the carbon stored in wood and paper products over their service life and beyond through landfill;*
- e) *ensure building codes and energy rating schemes do not unfairly restrict the use of wood products, and recognise their life-cycle benefits and low carbon footprint; and*
- f) *that Government agencies more adequately take into account and implement LCI and LCA assessments, including the carbon emissions profile of alternative materials on a whole-of-life procurement basis, as part of the environmental sustainability provisions of the Commonwealth Procurement Rules (CPR).*

4. OPPORTUNITY - NEW FOREST, WOOD, PAPER AND BIOPRODUCTS

AFPA is very positive about the continued future market demand for forest and wood products globally, regionally and in Australia in traditional markets, in emerging markets, and also in new bio-fibre based products and services which are developing. Wood fibre is a natural, renewable, recyclable and sustainable resource. This is now well recognised in many countries in the rest of the world and supported by communities and governments for their triple bottom line benefits: environmental, social and economic.

With an expanding population, both in Australia and in the South-East Asia region, aging stock and high forecast demand for new housing and other wood-based products over the next few decades, the forest industry has the potential to provide a versatile range of wood products for structural, commercial building and high quality appearance uses. Wood and paper products involve lower energy inputs in production and provide a range of carbon mitigation and sequestration benefits relative to other building materials.

¹ Lippke, B., Oneil, E., Harrison, R., Skog, K., Gustavsson, L. and Sathre, R. (2011). Life cycle impacts of forest management and wood utilization on carbon mitigation: knowns and unknowns. *Carbon Management* 2: 303-333.

Historically, forests have and can produce many different products to meet highly diverse society demands and evolving environmental consciousness. Some known opportunities for improved efficiency, diversification, value adding and product innovation with respect to wood and paper products include:

- biofuels for electricity and heat production;
- cogeneration of electricity and heat in pulp and wood processing operations;
- composite wood products and building systems;
- new structural and panelling technologies that utilise small-wood and residues in timber construction in commercial and high-rise buildings;
- innovative tissue, paper and packaging products; and
- bio-chemicals, textiles, solvents, plastics, lubricants, fragrances, and other potential outputs from 'bio-refineries'.

AFPA recommends that appropriate, effective and sustained action is taken by Government and policy makers to ensure that industry can take advantage of the opportunities to diversify and value-add, including by commercialising its Australian innovations.