AUSTRALIAN FOREST PRODUCTS ASSOCIATION (AFPA) COMMENT ON THE CLIMATE CHANGE AUTHORITY (CCA) RENEWABLE ENERGY TARGET ISSUES PAPER

SEPTEMBER 2012

Introduction

The Australian Forest Products Association (AFPA) welcomes the opportunity to comment on the Climate Change Authority (CCA) Renewable Energy Target (RET) Issues Paper (Paper).

AFPA is the peak representative body for Australia's forest, wood and paper products industries. We represent the industries' 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. This submission from AFPA is made on behalf of industry, and builds on previous industry engagement with the Government on the RET.

The Forest, Wood and Paper Products Industry, Energy Use, and the Carbon Economy

The forest, wood and paper products industry is one of Australia's largest manufacturing industries with an annual turnover of $22 billion. It contributes around 0.6 per cent to Australia's gross domestic product and 6.7 per cent of manufacturing output ($7 billion in 2008-09). Approximately 76 800 people are directly employed in the industry, including 13 200 people in the forestry and logging sectors and 63 600 people in the wood and paper manufacturing sectors (DAFF 2010). The industry is also significant in its geographic spread and to the socio-economic well-being of many rural and regional communities through local growing, harvesting, processing, marketing of forest products, and flow-on effects to other suppliers.

AFPA members operate in forest management, plantation growing, solid wood and wood fibre processing, and pulp and paper manufacturing sectors. The various sectors are faced with divergent opportunities and threats from renewable energy policy. The pulp and paper and wood panels manufacturing sectors are significant users of energy (both grid-purchased electricity, and electricity and heat produced on-site from renewable and fossil-based sources). The solid wood sector is both an energy user and a producer of renewable energy from biomass residues. Plantations generate biomass feedstock from harvest residues. These renewable energy opportunities could expand substantially if the right policy incentives and regulatory frameworks were developed and implemented.

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AFPA's major energy using members are manufacturers of paper, solid wood and engineered wood products. These industries, like much of manufacturing, have experienced limited price rises for products for many years (excluding short term fluctuations) and increasing quality and performance demands. As an example, since 1986, world paper prices have fallen an average 20% in Euro/DM and, at the same time, the $AUD has increased in value by 20% against the Euro/DM.

While the industry has been able to contain costs through increased efficiency and scale, competitive sourcing of raw material inputs and generating much of its own energy, it is unable to control the costs of inputs, including energy and energy distribution which essentially come from non-import-competing monopoly sources. These sources have little incentive to contain costs, as they are able to pass them on above CPI price rises. Consequently internationally competitive energy costs are essential if manufacturing in Australia is to survive.

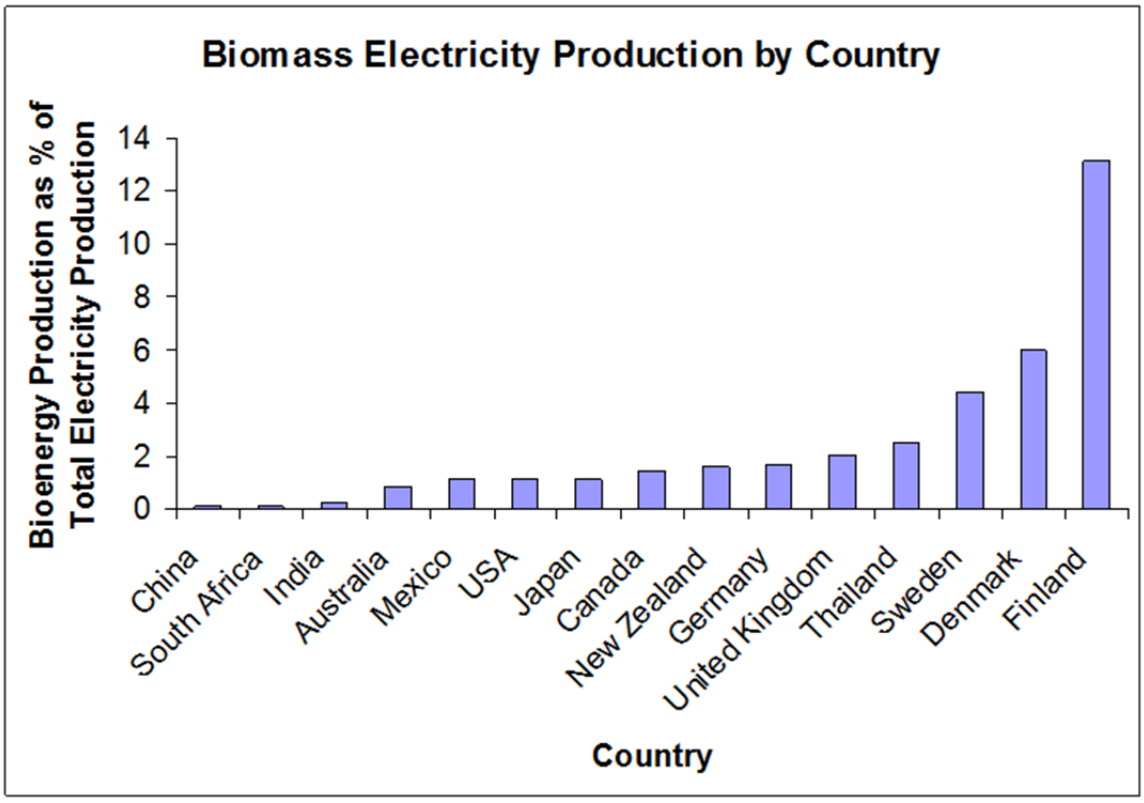
Wood and paper products are natural, renewable, and recyclable. Trees sequester carbon and wood and paper products store carbon while in service and beyond. Residues from Australia's forest, wood and paper products industries hold great potential as alternatives to fossil fuels for energy generation. Estimates are that wood waste in Australia has the potential to generate up to 3,000 GWh by 2020 (nearly 7% of 2020 RET target)[1].

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. For example in 2007 over 14% of Finland's, around 5% of Sweden's, and more than 4% of Austria's total electricity generation comes from bioenergy. In the United States, bioenergy generates 40 TWh of electricity, equivalent to the entire grid connected electricity demands of Western Australia, South Australia and Tasmania combined. See ***Figure 1*** for further detail on Biomass Electricity Production by Country.

The lack of incentives for the use of forest biomass in energy generation creates a serious imbalance in the renewable energy market, and missing 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.

[1] Figure 12, Page 20, Australian Bioenergy Roadmap '*Setting the directions for Biomass in Stationary Energy to 2020 and beyond*' Clean Energy Council, September 2008

Figure 1: Biomass Electricity Production by Country



Source: International Energy Agency 2007

CCA RET Review Framework

The CCA has invited stakeholder feedback on an Issues Paper called 'Renewable Energy Target (RET) Review'. The CCA will undertake reviews on aspects of the Carbon Pricing Mechanism including the RET, the Carbon Farming Initiative, and the National Greenhouse and Energy Reporting System. AFPA understands the CCA has interpreted the scope of its review of the RET to include:

- the Large-scale Renewable Energy Target, including the target trajectory, the target level and its relationship to the Clean Energy Finance Corporation;
- the structure of the Small-scale Renewable Energy Scheme, including how its annual target is set;
- the liability framework, exemptions and shortfall charge of both the large-scale and small-scale schemes;
- the eligibility framework for both schemes and the diversity of renewable energy;
- the impact of the RET on the electricity market in terms of costs, prices and energy security; and
- the frequency and scope of future review under the Renewable Energy (Electricity) Act 2000 (REE Act).

Under the REE Act the CCA must have regard to the following principles in its RET review:

- be economically efficient;
- be environmentally effective;
- be equitable;
- be in the public interest;
- take account of the impact of households, business, workers and communities;
- support the development of an effective global response to climate change;
- be consistent with Australia's foreign policy and trade objectives; and
- any additional principles the Authority considers relevant.

Further the objects of the REE Act are:

- to encourage the additional generation of electricity from renewable sources;
- to reduce emissions of greenhouse gases; and
- to ensure that renewable energy sources are ecologically sustainable.

AFPA's concerns and recommendations detailed in this submission attempt to align with, and should be considered in light of, many of the REE Act principles and objects detailed above.

Comments on the Paper

(When a comment detailed below relates to a question detailed in the Paper the question number and page reference is included.)

1. AFPA a member of AIGN

As a member of Australian Industry Greenhouse Network (AIGN), AFPA supports written contributions made by AIGN on behalf of its members and the Australian industry. AFPA urges the CCA to consider carefully both the content of AIGN's submission and this submission.

2. AFPA previous comments on the RET

AFPA has significant ongoing concerns with the RET framework and has detailed many of these in this, and previous submissions to Government on the RET. AFPA refers the CCA to the following detailed AFPA submissions and encourages their complementary consideration:

- *AFPA submission[2] on the draft energy white paper: strengthening the foundations for Australia's energy future (March 2012); and*
- *AFPA submission[3] on exposure draft regulations to amend the RET scheme (November 2011)*

[2] http://www.ausfpa.com.au
[3] http://www.ausfpa.com.au

3. *Regulatory burden on businesses*

AFPA urges the CCA to consider in this review the significant cost burden that both regulatory frameworks (i.e. the RET and clean energy future (CEF)) and network charges impose on industry. The RET and CEF impacts are, in many cases, equal to, or greater than, the base energy price paid by industry. Network charges account for a further 30% to 60% of an entity's total energy costs dependent upon that entity's specific connection into the electricity transmission and distribution network. These significant cost impacts on industry's activities, sustainability and investment decisions should not be underestimated by the CCA or wider government.

4. *AFPA urges flexibility in the RET*

Current estimates of total aggregate electricity demand are significantly lower than figures underpinning the existing RET (AEMO estimates over 5% less by 2020)[4]. Therefore maintaining the fixed RET is not realistic. Under the current estimates of total aggregate electricity demand the application of the fixed RET will result in an effective RET greater than 20% which will add significant cost and economic burden to energy users. AFPA urges flexibility to adjust the target should be incorporated in the RET framework to reflect current lower estimates of total aggregate electricity demand.

Further it is proposed that any notice, or setting of, key RET components (e.g. target, demand forecasts, renewable power percentages) is more efficiently undertaken prior to the start of the applicable year. This notice timing will allow energy users necessary flexibility to build costs into their future forecasts to underpin increased commercial certainty.

[LRET section Questions 1, 2 and 5 page 25, and Question 8 Page 27]

5. *Develop renewable energy opportunities*

AFPA urges the Government to develop renewable energy opportunities for industry, including renewable biomass for electricity, renewable heat capture and biofuels. The current RET is considered to be unnecessarily restricted to electricity generation. The RET should be encouraging the deployment of renewable energy forms such as those that produce heat (including steam) and biofuels directly for both industrial and domestic purposes.

In many cases fossil fuels are combusted to either directly produce heat or even more inefficiently to produce electricity to then produce heat. Consequently there are substantial opportunities to reduce GHG emissions from this source.

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[4] 2012 National Electricity Forecasting Report (NEFR), Australian Energy Market Operator (AEMO), 29 June 2012, www.aemo.com.au

This would be consistent with renewable energy policy and incentives in many other countries (including European Union members, US states, Finland, Sweden, Germany, South America (Brazil) and South Africa to name a few) and help to create a more level playing for industry.

International examples of this policy focus and facilitation include:

- the recent 'California 2012 Bioenergy Action Plan'[5]. The Plan's intent is to accelerate clean energy development and job creation. The plan contains more than 50 recommended actions to increase the sustainable use of organic waste, expand research and development of bioenergy facilities, reduce permitting and regulatory challenges, and address economic barriers to bioenergy development. The plan is intended to facilitate the creation of more than 4000 jobs and help California meet its clean energy, waste reduction and climate change goals. Importantly, the Plan identifies biomass residues from forestry and wood processing activities as an important source of renewable energy for the state that would otherwise go into landfills or be burned; and
- the EU Biomass Action Plan 2005, which has informed associated initiatives such as the Biomass Action Plan for Scotland 2007 and the National Biomass Action Plan for Germany 2007;
- the subsequent EU Climate and Energy Package 2008, and
- the European Renewable Energy Council Renewable Energy Roadmap.

[LRET section Question 11, page 29]

6. Recognise legitimate sources of renewable energy

AFPA strongly urges the RET should be amended to recognise legitimate sources of renewable energy including the recognition of biomass sourced from sustainably managed natural forests. Specifically, the relatively recent exclusion of sustainably managed natural forest biomass residues from the RET should be rescinded.

The objective of the RET is to create a guaranteed market for renewable energy therefore it should provide opportunities for all renewable energy sources, including sustainably managed natural forest biomass. This approach is consistent with the objects of the REE Act 2000.

The exclusion of biomass from sustainably managed natural forests from the RET will significantly obstruct this objective and is conceptually flawed because:

- 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

[5] 2012 Bioenergy Action Plan, Bioenergy Interagency Working Group , Aug 2012 http://www.resources.ca.gov/docs/2012_Bioenergy_Action_Plan.pdf

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.

AFPA argues there is an overwhelming case to rescind this decision and amend the RET appropriately. Further, it would make far more sense to amend the RET to include incentives for renewable heat and liquid transport fuels rather than to restrict the use of sustainably managed natural forests biomass and disallow future renewable energy projects.

[LRET section Question 15, page 31]

7. Access clean technology programs

AFPA recommends the Government continue to review current policy frameworks, improve communication, and develop new initiatives with an aim to better enable industry to access, and implement, clean technology programs. This will facilitate co-investment in renewable energy, advanced heat capture and transfer technologies, and other innovative lower emissions opportunities in manufacturing. This facilitation is consistent with the objects of the REE Act 2000.

Further, existing liable entities under carbon pricing should be eligible for access to existing clean technology programs (CTIP etc) in addition to coverage under the Jobs and Competitiveness Program (JCP) as it would provide incentives to reduce GHG emissions and underpin renewable energy opportunities.

[LRET section Question 6, page 26]

8. Forest biomass project certainty

Investment in new biomass plants is expensive, resource intensive, and time consuming. Industry needs regulatory certainty to underpin these investments. The current situation where a proponent does not know if their biomass plant is eligible for renewable energy credits until after the plant is commissioned does not provide the regulatory certainty required underpin investment, and must be changed.

AFPA recommends in the existing regulatory process the Government provide for pre-certification of forest biomass projects to give security to investors, and assurance that they are eligible for renewable energy credits prior to the commissioning of a biomass plant.

9. Inequity of policy focus

AFPA urges CCA should give equal consideration of the policy implications to both energy users as well as energy producers when reviewing the RET. This inequity of policy focus has resulted in inequitable and inefficient policy outcomes in the past. Implementing inequitable 'risk reduction' measures for energy producers can, and does, increase the risk to energy users (consumers) who often have little power or choice to balance out the market.

Further all policy attempts to stabilise energy use and improve energy productivity have been limited to industry, despite household use known as a major factor driving peak demand growth. Care must be taken that appropriate mechanisms are aimed at the right users to achieve the desired outcome. Each additional program imposed on industry adds cost burdens, erodes competitiveness, and must be justifiable not only in its effects, but also alongside other related regulation (i.e. a carbon price).

10. Non-complementary carbon policy frameworks

Although CCA has stated (*Page 16 of the Paper*) it does not see this to be within the scope of its review of the RET, the current situation of crowded, complex and often non-complementary carbon policy frameworks at both national and state level need to be addressed with a focus on simplification and rationalisation. Examples of non-complementary carbon policy frameworks include the interactions between the RET, Energy Efficiency Opportunities (EEO), Clean Energy Future (CEF) legislation, and various state-based renewable energy schemes.

The policy environment and energy sector has changed considerably since the MRET and RET was first announced, especially with the introduction of the Clean Energy Future framework. As such AFPA strongly questions both the continuation of the various state based renewable energy schemes, and the ongoing need for the RET framework within the policy environment with their adverse impacts on energy consumer's costs and uncertainty for manufacturing industries.

[LRET section Question 3, page 25]

11. Changes to policy

Continual changes to existing complex legislation and regulation continues to have a significant impact upon industries seeking to make making long-term significant investment and commercial decisions in an already complex economic environment.

AFPA strongly urges that the Government must as a whole, and the CCA RET review as a subset, focus on consistency of policy and reform to underpin the required certainty for industry.

12. RET framework limits the project spectrum

The basic objective of the RET framework is to promote the development of additional renewable energy generation. The built-in restrictions in the existing RET framework (such as the retrospectively applied LRET and SRET provisions) have seemed to focus investment in the extremities of the renewable energy project spectrum (i.e. very large renewable energy projects or very small renewable energy projects) and on some specific renewable energy sources (i.e. wind and solar).

These restrictions in the RET 'market' potentially result in missed project opportunities such as for middle scale and alternative renewable energy source projects. These middle scale and alternative renewable energy source projects could also have the additional benefits of being regionally sited with the accompanying socio-economic advantages, and have the potential to offset base-load energy needs (i.e. regional biomass plants).

AFPA proposes the RET framework should be amended to allow greater flexibility by amending current restrictions and allowing the market to allocate investment to the full renewable energy project spectrum.

13. Review 'fatigue'

Due to multiple reviews of complex interrelated policies leading to 'review fatigue' by stakeholders and to underpin increased certainty to industry, less frequent reviews are preferred. Again review(s) should address the greater issue of whether the RET should continue in any form in this policy environment.

14. SRET and LRET structure

Capping the price but not the quantity of small-scale renewable electricity certificates introduces uncertainty into the electricity price for consumers. This problem is compounded in the case of electricity-intensive processes for which electricity makes up a significant proportion of their operating costs. The small-scale portion of the RET (SRET) should either be capped, or removed from the RET altogether.

Further the large-scale portion of the RET should not be subject to increased volatility (again for electricity consumers rather than producers) due to what is considered the poor design of the small-scale portion. The future price(s) of renewable electricity under the RET is relatively unknown and is a significant risk that companies must plan to manage. Further if there is no stability in the size of the target, their operating environment will become even more uncertain.

Both of these issues are outcomes from intervention in the RET framework that have resulted in unintended outcomes that need to be addressed.

[SRET section Questions 1 and 2, page 33]

Concluding Remarks

AFPA appreciates the opportunity to make a submission to the CCA on the Paper. While not an exhaustive account of all the issues and concerns of the forest, wood and paper products industry in relation to the RET and associated regulation, we have attempted to provide an overview of key issues affecting the forest manufacturing (and energy-using) sectors as well as related opportunities for associated renewable energy sources and technologies.

AFPA would be pleased to participate further in this and related consultation processes.

Australian Forest Products Association – 12 September 2012