



*Timber Communities Australia overview of*  
**AUSTRALIA'S RESPONSE TO CLIMATE CHANGE via**

**THE GARNAUT CLIMATE  
CHANGE REPORT  
And  
THE GOVERNMENT'S  
DISCUSSION PAPER**

*Carbon Pollution Reduction Scheme  
Green Paper July 2008*

Last year, while in Opposition, the Australian Labor Party commissioned Professor Ross Garnaut to examine the impacts, challenges and opportunities of climate change in Australia. On 4 July 2008 Professor Garnaut issued his draft report. The final report is due at the end of September 2008.

Garnaut's recommendations will not necessarily become Government policy but will be taken into account as the Government develops policies to deal with climate change. Federal Treasury is expected to release findings of its economic modelling of carbon reducing measures in October. The Government expects to release draft carbon trading legislation, including an emissions target for 2020, by the end of this year.

As part of its policy development process, the Government issued a discussion paper on 16 July 2008, the Carbon Pollution Reduction Scheme Green Paper. Comments can be submitted until 10 September 2008.

### **Following are key points from the Garnaut report**

- Garnaut notes that some prominent scientists reject the theory that climate change is the result of human activity. They argue that recent changes in climate, such as higher temperatures and lower rainfall in many parts of Australia, may simply be a natural climatic cycle.
- However, Garnaut believes that the weight of scientific evidence supports the conclusion that continued growth in the emissions of greenhouse gas, particularly carbon dioxide, caused by human activities will generate high risks of dangerous climate change.
- An emissions trading scheme (ETS) should be the central element of Australia's policy to deal with carbon emissions.
- The ETS would work as follows. The Government would set a limit on carbon emissions to achieve its objective of reducing greenhouse gas emissions by 60% (from year 2000 levels) by the year 2050. The Government would issue permits for emissions up to that level. Holders of permits will be able to trade their permits, thereby putting a price on carbon. Businesses that emit large amounts of carbon will be able to buy permits from smaller emitters, but the overall emissions cannot exceed the government's target. To begin with, emissions permits will be auctioned off by the government. Companies will have to pay for their original allocation of permits and for any they buy from other companies later.
- Petrol and oil should be included in the ETS, with no compensating reduction in excise. Garnaut argues that cutting the excise on fuel would reduce the incentive for Australians to use less petrol and oil and develop alternative sources of energy.
- Industries operating predominantly in international markets could be exempt from the ETS but exemptions should be kept to a minimum to ensure that costs of the ETS are shared as widely as possible across the economy.
- The Government will clearly receive a lot of revenue from the sale of emission permits. Garnaut proposes that 50% of the revenue be used to compensate households for higher costs, 30% of the revenue should go to trade-exposed industries and 20% should go to renewable energy research and development.

## **The Government's discussion paper, *Carbon Pollution Reduction Green Paper - July 2008***

On 16 July, the Climate Change Minister, Penny Wong, issued this Government discussion paper on emissions trading.

### **Key points from the Government's paper are:**

- A start-up date of 2010 for the ETS is only an "intention" at this stage.
- The scheme will cover about 75 per cent of Australia's emissions
- About 1,000 businesses that emit more than 25,000 tonnes of carbon a year will be required to buy permits and monitor and report their emissions.
- A carbon price or further reductions targets will not be identified until further Treasury modelling is released in October.
- Once an emissions cap is set, carbon permits per tonne will be auctioned with a price set by the market, with the aim to create an incentive for businesses to decrease emissions.
- The Government has accepted Garnaut's recommendation that the ETS (which the Government calls a Carbon Pollution Reduction Scheme) include petrol but the Government will reduce the fuel excise for at least the first three years to ensure that the ETS does not lead to a net increase in the price of petrol. The reduction in fuel excise will be reviewed after three years.
- Trucks will be eligible for the reduction in fuel excise, but this will be reviewed after one year.
- Big polluters and industries that are significantly exposed to world markets, like the aluminium and cement industries will get a specified amount of free permits. At the start of the scheme 20% of permits will be made available to these industries.
- Electricity generation, transport, emissions released from oil and gas production, industrial processes and waste will all be included in the scheme from the start. Under a \$20 per tonne carbon price, electricity bills are likely to increase by 16 per cent, gas bills by 8 per cent.
- Deforestation is not included in the ETS. Forestry can be included on a voluntary basis and receive permits for sequestration (removing carbon from the atmosphere) or the burial of carbon.
- Agriculture will not be included any earlier than 2015, with a final decision to be made in 2013.
- Coal-fired energy generators will receive a limited amount of direct assistance at the beginning of the scheme, but this amount has not yet been defined.
- A Climate Change Action Fund will be set up to support capital investment and improve energy efficiency for businesses.

## **TCA overview of the Implications for the forest industries and dependent communities**

There is still a range of views regarding climate change but there is no doubt that Australia will have some form of ETS within 2-3 years. TCA fully supports the forest industries work to ensure in developing an ETS the Government recognises the true role of trees in removing carbon from the atmosphere and storing it in long-lived wood products.

Garnaut notes that there is considerable potential for taking carbon out of the atmosphere through changes in land and forest management and agricultural practices. He recommends that carbon stored in wood products should also be reflected in carbon accounting under the ETS as soon as reliable measurement methods are developed. He recommends that the increasing carbon content of growing forests should be also be recognised and suggests that recent technological developments would seem to make that possible.

As wood is essentially stored carbon taken out of the atmosphere, the forest industries should be able to offset the energy consumed in harvesting and processing. While the Government proposes to offer free carbon permits to big polluters, such as the steel and aluminium industries, these industries are nevertheless likely to face increased costs to reflect the amount of carbon they emit. This should give wood products a significant market advantage over competing products.

Trucks will be eligible for the reduction in fuel excise, but this will be reviewed after one year. This will increase the costs incurred by timber harvesting and haulage contractors, many of whom are already facing financial pressure due to increased fuel costs.

The Government proposes that forestry be included in the ETS on a voluntary basis. The benefits of participation in the scheme would be greatest for owners of new forests (which have the greatest potential to sequester carbon). However, for some forests (such as single-rotation forests) participation in the scheme might not be beneficial because the emissions from harvesting could exceed the value of permits received for sequestration. A voluntary approach would allow forest landholders to determine for themselves whether participation in the scheme would benefit them. The issues are obviously complex but on balance the proposed ETS should provide an incentive for the expansion of plantation forests.

Compliance costs for forest owners could be high, particularly if annual reporting is required. The Government notes that emissions from forests as a result of harvest or fire can be significant and may be difficult for some forest landholders to manage, creating risks of non-compliance.

As always the anti forestry activist are trying to muddy the waters by making un-factual claims about the exclusion of deforestation from the proposed ETS.

The Government's discussion paper defines deforestation as "the conversion of forested land to an alternative, non-forest use". Clearly, sustainable forestry is not deforestation. TCA fully supports the forest industries work to ensure that the very clear difference between deforestation and sustainable forestry is highlighted at every opportunity.

Garnaut notes that inclusion of forestry could cause some issues for integrating an Australian emissions trading scheme with other schemes that do not recognise forestry, such as the European Union's scheme.

## **TCA summary**

TCA has been pleased to have played a small but important role in the development of the single industry position presented to the Garnaut Review and the Rudd Government in the lead up to the release of this weeks green paper.

TCA's role was to ensure the interests of the communities we represent was central to the single industry position. TCA is pleased to see that the Carbon Pollution Reduction green paper reflects many of the elements of the single industry position in respect of the unique opportunities our industries offer to carbon reduction strategies.

The task however is ongoing particularly in the area of the recognition of harvested wood products as carbon stores. It is vital that industry retains a single position in response to the green paper if it is to successfully work with the Rudd Government and Australia's near international neighbours to secure the international settings that the Government has indicated it would require and seeks in order to be able to include harvested wood products within the Carbon Pollution Reduction Plan.

The inclusion of harvested wood products as carbon stores is of critical importance to our forest and timber industries as it will ensure that structural distortions within the domestic and international markets which will disadvantage our industries are avoided. As 80% of the employment within those industries is in the processing and production ends of the supply chain it is critical to our timber communities that viability at this end is not jeopardised by contrived rules around carbon release as currently exist under the Kyoto rules.

TCA as a community representative will continue to work closely with industry associations and the Government to ensure that that harvested wood products as carbon stores are included within the scheme as soon as possible.

TCA recognises that the green paper includes a range of features designed to mitigate the impacts of the scheme on low income earners and businesses generally there appears still to be a great deal to be done to recognise that the impacts on dependant rural and region communities will be far greater than those experienced by urban communities and TCA will now seek to engage with the Government far more directly in its own right on behalf of its communities on this issue also.

TCA thanks our Canberra branch member Charles Body for his valued contribution to preparing this overview of these most important reports.

**Jim Adams**  
**CEO**