

Inclusion at Inception

How Australia's Forests, Forestry and Wood Products Industry Can Optimally Contribute to Emissions Reductions Through Inclusion in the Domestic Emissions Trading Scheme

INCLUSION – SUMMARY OF OUR PREFERRED APPROACH

Australia's forests, forestry and wood products play a positive role in storing carbon over very long time periods being a net carbon sink rather than a net source of emissions. The Australian Government's carbon accounts demonstrate that the carbon storage associated with Australia's forests is increasing over time.

For this simple reason, the Australian forests and forest products industry (the Industry) recognises that forests, forestry and wood products can play a significant role within the emissions trading scheme (ETS) that will assist in managing carbon dioxide emissions over time. In the majority of cases, the Industry's contribution will be made from regional and rural Australia, communities requiring careful consideration by the Industry and Government to ensure that the policy settings protect their interests and advance the best possible outcomes.

In support of the Government's policy approach to ETS of "maximal coverage of greenhouse gases and sectors, to the extent that is practical" the Industry supports an 'inclusion at inception' model for forests and wood products as detailed in [Schedule 1](#). The model provides different treatments for each component of the industry to ensure that this model can be effectively managed in a productive manner from ETS commencement.

This inclusive approach ensures that the substantial storage of carbon by Australia's forests and wood products is recognised, managed and supports the integrity of the National Carbon Accounting System, sending a clear regional and global signal of Australia's intention with respect to future international agreements.

The industry recognises that as with other industries and sectors, the specific treatments of forests, forestry and wood products under the Kyoto Protocol's 'rules' provides an initial accounting framework of the impacts of forests on global management of carbon dioxide levels. Australia's leadership position in negotiating post Kyoto arrangements can be advanced by the ETS including measures that signal that sustainable development activities on indigenous lands and arising from sustainable forest management will accrue emissions reduction units without perverse and unintended effect.

While forest carbon sequestration and emissions are relatively well understood at the general level, and reliable methods are available for estimating forest carbon, especially for plantations, (eg Greenhouse Friendly program and NSW Greenhouse Gas Reduction Scheme), it is also recognised that further work needs to be undertaken to strengthen the science and reliability of measurements of carbon stocks for use in ETS, and to evaluate the costs and benefits of closely monitoring carbon stocks.

Consistent with the philosophy of continuous improvement, the Industry proposes areas of action required to make Australian Government's measurement tool more effective, particularly for use at enterprise level.

The Industry has identified priority work areas for the Industry's contribution to carbon management to be maximised from the earliest possible date under the 'inclusion at inception' model.

The Industry commits to constructively engaging with the Australian Government to complete that work.

INDUSTRY'S APPROACH

1. 'Inclusion' – A strategic approach

The Industry has developed, consistent with the Government's policy of maximal practical coverage of an ETS, a strategic approach built around the principle of "inclusion" of all components of the forests and forest industries.

'Inclusion' refers to an industry, sector or component of an industry being included in the ETS regardless of the form of its inclusion or the rules that apply to its inclusion. For example, bioenergy from forest biomass can be deemed included in the scheme, even though it is carbon neutral when forests are regrown.

This is an important definition as it provides the Australian Government a framework to maximise inclusion in the ETS at inception and to progressively adjust the carbon assets and liabilities of industries, sectors or components of industries as improved knowledge becomes available. The framework will also assist Australia's strategic goals in negotiating post Kyoto arrangements.

2. Forests, Forestry and Wood Products are Carbon Stores

Because they can store carbon forests and wood products play a significant positive role in the management of global and national carbon balances.

In the area of forests and forestry, the Kyoto accounting rules provide for emission from forests established since 1990 (on land cleared prior to 1990) (Article 3.3) and options to incorporate emissions from forest management associated with native forests and plantations established prior to 1990.

For wood products, the Kyoto accounting rules do not provide for storage of carbon in harvested wood products with harvesting treated as a source of emissions.

Recent and increasing evidence indicates that many harvested wood products store carbon during their use and for many decades after their use through disposal in landfills.

The Industry, consistent with Australia's long advocated position, supports the incorporation of carbon stored in wood products in ETS by deferring emission liability consistent with carbon discharge rates over the lifecycle of wood products through product use or disposal in landfill.

We recognise that deforestation is a significant issue in global carbon management. We agree that despite the highly limited potential for significant deforestation events in an Australian context, rule sets for the ETS can and should provide international leadership.

3. How Forests, Forestry and Wood Products Make Their Earliest and Strongest Contribution to Emissions Reduction

3.1 'Inclusion at Inception' Provides for Earliest Opportunities for Forests, Forestry and Wood Products to Maximise its Contribution to Australia's Emissions Reductions

The considered view of the Australian Industry is that Australia's forests and wood products can make their strongest contribution to emissions reduction through an 'inclusion at inception' model for all components.

Australia's forests, forestry and wood products play a positive role in storing carbon over very long time periods. On the Australian Government's current measures, this carbon storage is increasing over time.

The industry recognises and agrees that the levels of knowledge of the specific carbon storage of and capacity to efficiently measure, some components of the industry are incomplete. Accordingly, as detailed in Section 1, we propose different treatments to make 'inclusion at inception' effective.

The adoption of the inclusion model presented by the Industry will provide incentives for participants to implement actions which achieve real emission reductions and provide strategic support to the Australian Government in negotiations on a more comprehensive accounting framework for forests and forest products.

3.2 Treatment of Components of Forests, Forestry and Wood Products

The following details the proposed treatment of the components of the Industry within the 'Inclusion at Commencement' model:

a. *Post-1990 Forests*

Post 1990 forests, as defined by Kyoto accounting rules, provide easily *measured*, scientifically *verified*, *certain* and *additional* stores of carbon. Accordingly the Industry supports the inclusion of Post 1990 forests, primarily plantations from the commencement of the ETS. Participation would be on a voluntary basis with individual business entities deciding whether to participate in the ETS.

Those business entities that select participation under ETS should be afforded carbon emissions reduction units for the carbon stored in the forests since 1990, with capping of liabilities up to but not exceeding those emissions reduction units. This will provide some liquidity in the carbon market in early years of the scheme and 'secure' the carbon stored in post-1990 plantations.

With the purpose of providing maximum incentive for owners of post 1990 forests to participate in ETS it is important that effective and efficient arrangements for small forest owners be developed and implemented.

b. *Management of Pre-1990 Forests*

Pre-1990 forests – both native forests and plantations – provide increasing levels of carbon storage as demonstrated by Australia's national accounts. As we note in section 4.2 below, some work is required to complete the measurement tools that will assist Australia to realise this carbon storage potential, in particular to ensure *consistency*, *reliability* and *efficiency* of measurement. Accordingly, these forests should be included in the scheme, but accounted as neutral.

There are measurement differences between pre-1990 plantations and native forests. Accordingly, we address the specifics of each separately.

i. Management of Native Forests

The inclusion of production native forests in the ETS from scheme inception under the carbon neutrality principle would allow the Australian Government to continue to measure, report and benefit from the carbon abatement of *est.* 470 million tonnes CO²e (cumulative 1990 – 2010).

ii. Management of Pre-1990 Plantations

Measurement of carbon assets and liabilities in pre-1990 plantations is more certain, however measurement techniques need to be refined at a forest level and the cost-benefits of measuring carbon stocks that will be neutral in the long term need to be evaluated. These issues support the continued treatment of pre-1990 plantation forests as 'included but neutral'.

c. ***Harvested Wood Products***

As noted previously the Industry supports the inclusion of harvested wood products in an ETS from inception to recognise and utilise the *long term* and *permanent* storage of carbon that arises from solid wood products during their use and disposal

Significant distortions may arise if domestically produced competitor products for harvested wood products (such as concrete and steel) are granted trade exposed, emissions intensive industry compensation and the carbon stored in harvested wood products is not included in an ETS. This is especially the case for solid wood products (sawn timber) and manufactured wood products (plywood, MDF) that go into buildings.

d. ***Bioenergy from forest biomass provide carbon neutral energy***

Bioenergy produced from forest biomass reduces net greenhouse gas emissions by displacing fossil fuel use with renewable energy through growth of harvested trees.

Residual forest biomass derived from production is already used within the forest industry to generate *in situ* energy, often in the form of heat for processing. Residual wood fibre generated through harvesting processes is a relatively untapped source of feedstock for bioenergy.

The Industry supports the inclusion of bioenergy from forest biomass at the inception of the emissions trading scheme.

e. ***Maintaining the Competitiveness of Australia's Pulp & Paper and Wood Panels Industries***

We support the auctioning of permits and do not support the distribution of free permits with the exception of carefully defined sectors of industries and specific business entities that are trade exposed and emissions intensive. There is no logic to compensating industries just because they are emissions intensive. That will not aid emissions reduction and could create the effect of rewarding inefficient business entities at the expense of the more efficient. The purpose should be to compensate industries that are trade exposed because of their energy intensity and their obligation to participate in an ETS relative to their international competitors.

Specific business entities should be compensated within parameters that are environmentally and economically efficient, equitable, transitional and built on sound governance principles.

Particularly affected business entities within trade exposed and emissions intensive sectors such as pulp and paper and wood panels manufacturing need to be included in compensation arrangements within these parameters.

f. ***Other Wood Products***

For the sake of completeness, the Industry recognises that there are a range of other wood products that may play some very minor part in the sequestration of carbon and note that in general they can be included in the ETS as neutral. Even combined, these

products make limited contribution to carbon accounting. A good example is firewood which can be deemed carbon neutral because it releases carbon to the atmosphere but does so in lieu of power generated from fossil fuels.

4. Measures to Maximise Forestry's Contribution to Australia's Emissions Reductions

4.1 Lessons from Existing Emissions Trading Schemes and Arrangements

An effective national ETS will operate on the principles of *simplicity, transparency, efficiency* and *effectiveness*.

We note that the relatively recent New Zealand ETS has reasonably strong industry support for its treatment of reforestation, because in its design it is more open and the costs of participation are minimised, which in turn is maximising actual participation. It is notable that the potential for forests, forestry and wood products to contribute to long term emissions reduction has been unleashed within the NZ scheme. In our view these features compare favourably to Australia's Greenhouse Friendly scheme.

While it may be possible to include emissions reduction units from participation in Clean Development Mechanism (CDM) and Joint Initiative (JI) programs and projects, we note that while making an important contribution, these can be comparatively inefficient.

4.2 National Measurement Tools and Techniques

While forestry represents a significant net carbon sink for Australia, it is important that measurement tools and techniques be sufficient to harness that potential. As identified in Section 3 above, there are gaps in current technical knowledge and limitations with existing tools that need to be addressed.

We accept that the Australian Government's National Carbon Accounting System (NCAS) and the National Carbon Accounting Toolbox (NCAT) are globally recognised as representing a world's best practice approach to efficient and verifiable carbon measurement. As a result of the advocacy of the Australian Government and the support of the Clinton Foundation's Climate Initiative (CCI), we note that NCAS and NCAT will shortly be in use for whole of landscape carbon assessments in many countries.

We agree that NCAS and NCAT can and should be used in Australia as a *default* or *baseline* measurement tool and for whole of landscape assessments. However, we note that further work is required to make NCAS and NCAT more appropriate as the *national default measurement* tool at a business entity level. We also note that across the industry, many business entities use for their own management purposes, *more detailed* measurement tools that are *independently accredited* and *audited*. Imposing NCAS and NCAT in addition or instead of those arrangements would not be appropriate.

4.3 Future Work Priorities To Maximise Industry Specific Inclusion

Overall, we recognise that the priority must be to close existing knowledge gaps that limit the inclusion of forests, forestry and wood products in the ETS. Specifically, we assess the priority work program as follows:

- a. Strengthening and completing the data required to maximise the inclusion of harvested wood products. For the reasons outlined above, we identify this area as requiring urgent attention;
- b. Completing the profiling and setting baselines for:

- fuel management for ecological and production purposes,
 - ecological burning to maximise future growth and carbon sequestration,
 - wildfire events,
 - pests and disease;
- c. Refining NCAS and NCAT and preparing them for application by business entities as the default measurement tools.

5. Industry's Commitment to Maximise its Contribution to Reducing Australia's Emissions

To progress and maximise the emissions reduction potential of the 'inclusion at inception' model for Australia's forests, forestry and wood products industries in the ETS, we recognise it is necessary for:

1. Industry to meet with Australian Government *legislators* to expand upon these positions as required and to address any residual issues that may arise
2. Industry to meet with Australian Government *advisors and technicians* to address design rules and implementation arrangements and
3. Industry to work with the Australian Government to complete the priority work identified above to maximise the positive contribution of the Industry to Australia's emissions reduction efforts from the earliest possible date.

Through the national organisations signatory to this submission, the industry is collectively committed to ongoing constructive engagement in order to maximise the contribution to national emissions reduction that can be made by Australia's forests, forestry and wood products industry under the 'inclusion at inception' model.

To progress the 'inclusion at inception' model for Australia's forests, forestry and wood products industries, we call for:

- Inclusion of post-1990 forests from scheme commencement;
- Inclusion of pre-1990 forests (both native forests and plantations) from scheme commencement but accounted as neutral;
- Inclusion of harvested wood products from scheme commencement; and
- Measures to maintain the competitiveness of the pulp & paper and wood panels industries.

Signatory Organisations

- Australian Plantation Products and Paper Industry Council (A3P)
- National Association of Forest Industries (NAFI)
- CFMEU Forestry & Furnishing Products Division (CFMEU FFPD)
- Timber Communities Australia (TCA)
- Australian Forest Growers (AFG)
- Treefarm Investment Managers Association (TIMA)

SCHEDULE 1

‘INCLUSION AT INCEPTION – TREATMENT OF COMPONENTS OF FORESTS, FORESTRY AND WOOD PRODUCTS IN ETS’

COMPONENT	POSITION IN ETS
Post-1990 Forests	Included from commencement of ETS, with option by individual organisations to register their emissions reduction units into the ETS with liabilities limited to no greater than emissions reduction units
Pre-1990 Forests i. Management of native forests ii. Management of pre-1990 plantations	Included from commencement of ETS, with carbon impacts initially accounted as neutral pending finalisation of emission measurements
Wood Products (solid wood, manufactured wood products, and paper)	Included from commencement of ETS, accounting for carbon stored in harvested wood products during use and after disposal
Bioenergy	Included from commencement of ETS
TEEI	Framework to be determined within ETS for maintaining competitiveness of TEEIs