



***Timber Queensland Submission  
to the  
National Emissions Trading Taskforce***

***Submissions have been invited from the National Emissions Trading Taskforce in relation to the discussion paper released in August 2006: Possible Design for a National Greenhouse Gas Emissions Trading Scheme. Timber Queensland appreciates the opportunity to express our views on the significance of climate change and on the role we see for emissions trading.***

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## TQ responses to the proposed NETS

### General Comments on the proposal:

#### ***A good starting point—but no single policy instrument can reduce Australia's emissions***

We believe that the scheme proposed by the state governments provides a workable starting point for an effective national carbon price mechanism. However, no single policy instrument can reduce Australia's greenhouse emissions. The argument that an Emissions Trading Scheme (ETS) would substitute for all other greenhouse programs (eg renewable energy mandates etc) ignores the reality reinforced by the Allens analysis that an emissions trading scheme on its own would not lead to absolute cuts in Australia's greenhouse emissions. Even under the most aggressive scenario analysed by Allens, by 2020 emissions would still be increasing rather than falling. In 1990, Australia's total net emissions were 543 MtCO<sub>2</sub>-e. Under the most aggressive scenario they would be 572 MtCO<sub>2</sub>-e (29 MtCO<sub>2</sub>-e or 5.3% higher than in 1990). This emphasises the need to broaden the National Emissions Trading Scheme (NETS) as proposed by the National Emissions Trading Taskforce (NETT), and to continue to apply other complementary measures, particularly in other sectors where emissions are growing strongly (eg transport, construction etc). At the outset, however, we agree on the proposed coverage of the scheme, the initial focus on stationary energy and the priority inclusion of forestry offsets, and the flexibility in relation to setting caps after 2020.

#### ***On balance, a good proposal for Queensland***

The NETT proposal reinforces our view that a national emissions trading scheme is good for Queensland. The potential costs of the scheme to the state economy need to be weighed against the potential benefits, and the long term requirement to reduce Queensland's net emissions. Allen's analysis confirms our view that the widely assumed adverse impacts on the economy are overstated. Their analysis confirms that the impacts on the national economy is extremely small. Allens found that the GDP level anticipated for 2020 would take an extra 2.2 months to reach. Australia's GDP will still have almost doubled by 2030.

Allens also projects minimal impacts on GSP in all states, including Queensland. While Queensland would fare worse than other states the impact is negligible with projected GSP by 2020 expected to be 1% less than the base case scenario. Allens also finds that far from being devastated by a NETS, the coal and aluminium industries would continue to grow. Due largely to export demand, coal industry output would keep rising and by 2020 would be only 2.5-3.4% less than business as usual. Meanwhile the aluminium industry would fare marginally better under a NETS, in part due to the compensation proposed by the Taskforce for trade exposed sectors.

Queensland would still experience faster growth than most other jurisdictions. Even under the most aggressive Scenario 3 Queensland's GSP would grow by 4.1% which is faster than all other states except WA. Because of the strong growth projected in all scenarios, the ETS impact has the practical effect of delaying by a few months the BAU growth in GSP expected by 2020. Employment impacts in Queensland are close to zero under all scenarios.

While there will be regional variation within these results, and the analysis necessarily makes assumptions about the final design of the scheme, we believe it gives a very useful assurance that Queensland will not be unfairly disadvantaged. We also believe that the magnitude of impacts projected by Allens are such that if Queensland capitalizes effectively on the opportunities presented by a NETS to sectors (like forestry, agriculture, renewable energy and others), the implementation of a trading scheme can be on balance beneficial for Queensland’s economy. At the same time it will build resilience to prosper in a global economy in which greenhouse pollution is an increasingly costly liability.

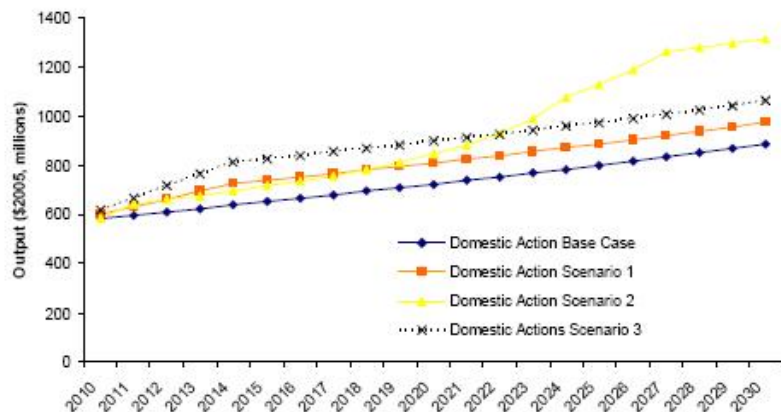
**Good news for the Queensland timber industry**

Conditional upon the concerns raised here being adequately addressed in the NETS, Timber Queensland believes that the national emissions trading scheme proposed by the state governments is good news for the timber industry in Queensland. As we have already described, we see great potential for the industry to contribute to reducing Queensland’s net emissions in the years ahead. However, this contribution depends completely upon there being a price on carbon emissions.

A price on carbon increases the incentive to establish timber plantations—something which can permanently increase Queensland’s greenhouse sinks notwithstanding rotational harvests. Properly applied it also removes the effective subsidy (through cost-free greenhouse pollution) provided to emission intensive building materials in the construction sector. By removing this subsidy, the NETS can facilitate more sustainable building construction and lower emissions in the construction sector (a benefit which appears not to have been adequately recognised by the NETT at present). At the same time, a carbon price signal could boost demand for renewable electricity sourced from the forestry sector. This can assist liable parties in meeting their NETS liabilities and even generate surplus permits. In time, with the extension of the system to cover transport, it could also assist in encouraging renewable fuels.

In these ways, the NETT can increase greenhouse sinks, encourage cleaner building materials, and increase bioenergy uptake—all of which is positive for the economic position of the timber industry. This positive impact is confirmed in Allens’ analysis which highlights the extent to which the forestry sector would benefit. According to Allens, increases in output for the industry could be up to 50% greater than a business as usual scenario by 2020. Employment in the sector could also increase by up to 48%. This may be an underestimate, given that Allens has focused primarily on the positive impacts of biosequestration. They do not appear to have considered the impacts on timber demand through a carbon price signal changing the relative competitiveness of building materials depending on their embodied emissions.

ABSOLUTE OUTPUT FOR THE FORESTRY INDUSTRY IN THE DOMESTIC ACTION SCENARIOS



Source Allens [MMRF-Green] 2006, p.45

The incentives established in a NETS will make it more financially viable for Timber Queensland to achieve its stated goal of establishing another 120,000 ha of new plantations over the next 10 to 15 years to meet future timber demand in this state. While greenhouse emissions are the focus of the Taskforce, it is important to note that there will be significant non-greenhouse benefits to Queensland associated with an expansion in plantations on this scale. It will boost sustainable building in Queensland where the construction sector is among the fastest growing in Australia. It will also reduce the reliance on imported timber, much of which is currently drawn from illegal and/or unsustainable sources.

In the event that Timber Queensland's target of 120,000 ha of new sawlog plantations are established in Queensland, over 20 MtCO<sub>2</sub>-e will be sequestered over the next 25 – 35 years. An additional 20+ MtCO<sub>2</sub>-e would be sequestered if a further 50% of this area were to be established as not-for-harvest plantations, possibly in association with timber plantations or to meet other environmental objectives. This is a conservative estimate which excludes additional sawlog plantations over and above the 120,000 ha sought by 2015-20. It also excludes additional pulpwood plantations which could generate further NETS compliant sequestration. Participation in a carbon trading market would significantly improve the viability of such a venture and be a major advantage in attracting the public and private sector investment required to achieve this vision.

#### ***Forestry offsets good news for economic efficiency of the scheme***

We strongly support the NETT's recommended inclusion of forestry offsets as early as possible. Forestry offsets, properly designed and monitored can make a major boost to the overall cost-effectiveness of the scheme. The Allens analysis finds that in addition to boosting the forestry sector, biosequestration offsets can also help to reduce the carbon price for any given emission reduction target. Because forestry offsets are cost-effective they can reduce the amount of abatement required in the electricity generation sector to meet the ETS requirements. While they are not likely to be so plentifully available as to eliminate the abatement incentive, they can reduce the overall cost for liable parties. Along with fuel switching and energy efficiency improvements, forestry offsets provide industry with more flexibility to meet their obligations. According to Allens analysis forestry can cut the abatement required by around 10% and the price of carbon by \$3-4 a tonne of CO<sub>2</sub>-e.

#### ***Other carbon benefits still unrecognized but we appreciate the practical difficulties***

Our industry receives no credit for the carbon stored in most of its forests and all of its timber products as a consequence of its treatment under conventional greenhouse accounting. The proposed NETS requires forests to have been planted since 1990 on cleared land as defined under the Kyoto Protocol and assumes the carbon returns to the atmosphere immediately a tree is felled. This captures only a tiny proportion of the sequestration provided by living trees, and ignores the reality that large quantities of carbon stored in timber products are kept from the atmosphere for decades. A3P recently estimated that the annual output of its plantation industry members alone stored over 2.1million tonnes of sequestered carbon. This plantation timber is then replaced with new trees, further adding to the sequestration. At present the industry receives little recognition and no payment for this environmental service.

Of the Queensland Government's 200,000 hectares of sawlog plantations, approximately 20,000ha of new plantations have been established since 1990, with only half of these meeting the very strict definition of 'Kyoto compliant' land. The pre-1990 plantations, and those more recently established on non-compliant land are making an important contribution to carbon sequestration that would not be recognized under the proposed NETS. Similarly it is possible that only half of the 50,000ha of

private plantations recently established in Queensland would be eligible under the NETS. Overall, a mere 15% of the Queensland plantation estate may be eligible under the NETS. Thus, the proposed NETS would compensate the industry for only a small proportion of the carbon storage service provided via living trees.

A significant proportion of the 120,000ha of new plantations being advocated by Timber Queensland may be established on previously cleared land that does not meet the Kyoto definition, and thus their significant contribution to sequestration would not be recognized under the scheme. Similarly, not for harvest 'environmental plantings' that interplant sparse, but existing forest vegetation may make a contribution to carbon sequestered, yet remain ineligible under the proposed NETS. The NETS needs to ensure that administrative processes will enable consideration of the additional abatement of such activities at a later date.

TQ appreciates the difficulties inherent in crediting offsets for harvested timber in any workable NETS. However, we believe that the Taskforce should recognise the benefits of including wood products in the longer term. The recognition of long-term storage in wood products in trading schemes has the potential to increase the value of carbon sequestration in forests, as the penalty currently paid due to harvest would be greatly reduced. It could also encourage the establishment of more plantations for carbon sequestration, providing greater incentives for smaller growers to participate. It could increase the use of wood products, with overall beneficial impacts on climate and to the wood-products industry as a whole. Finally, it could provide a benefit to landfill operators for storing carbon in landfills in the form of unrecoverable waste timber.

In order to ensure that biosequestration is a verifiable and credible component of a NETS, we accept that in the immediate term only carbon sequestered in living trees should be eligible for offsets. We also recognise the difficulty of applying a standard for living trees at odds with the 'Kyoto forests' definition. However, given the unrecognized environmental service provided by our industry, we think it is doubly important that the NETT ensures that its design does not discriminate against wood products (eg. via poorly designed compensation for energy intensive, trade exposed building products). We support the NETT proposal to establish administrative arrangements to allow for future consideration of new abatement opportunities, and believe that the Taskforce should consider the inclusion of wood products once a suitably rigorous and reliable accounting framework is available.

### ***Compensation to emission intensive trade exposed sectors could increase emissions in the construction sector***

We believe the Taskforce needs to carefully consider the broader domestic economic and greenhouse implications of the compensation proposed for energy intensive trade exposed sectors. In the construction sector, for example, the NETT proposal could have the unintended consequence of perpetuating a market advantage for emission intensive products like steel, aluminium, cement and plastics. At present, the environmental cost of greenhouse emissions embodied in building materials are not incorporated into their market price. Similarly, energy rating schemes focus only on energy use of buildings rather than the materials used in construction. This is partly due to the practical complexities of capturing all life cycle emissions including emissions embodied in building materials in a rating scheme.

While an emissions trading scheme would not capture all of the emissions in the construction life cycle, it could go a long way to correcting the market failure by costing emissions embodied in building materials. This would provide a tangible advantage to the timber industry in the building products market, thereby recognising its lower carbon footprint. That would also act as an incentive for cleaner energy, improved energy efficiency, and emission offset credit purchases by producers of steel,

aluminium, cement, plastics and other emission-intensive building materials. In combination, this would help to reduce emissions in the construction sector.

However, the Taskforce's as yet vague proposal to compensate high emission industries (which could potentially include steel, aluminium, cement, plastics and various other materials) could have the effect of perpetuating or even enhancing the advantage enjoyed in the domestic building sector by high emitting industries. Given the continued rapid growth in the construction sector, this would have the practical effect of increasing emissions in the construction sector. TQ believes much closer consideration needs to be given to this proposal to prevent adverse impacts of the type described here.

We expect that producers of emission intensive building materials will argue that higher electricity costs will mean their products will be replaced by producers of like or similar materials from abroad. However, in many cases, the more likely scenario is that their products would be displaced by producers of less emission intensive materials, like timber, produced in Australia. The compensatory measures applied by the NETT should be designed in such a way to ensure that this unintended eventuality does not arise.

***International Schemes should be compatible, but access should be limited to ensure domestic abatement***

We see it as highly desirable that the core elements of the NETS are compatible with the United Nations Framework Convention on Climate Change, Kyoto Protocol and the flexibility mechanisms therein: emissions trading, Joint Implementation (JI) and the Clean Development Mechanism (CDM). TQ has no major concerns with offset credits generated in other schemes being recognised under the NETS, however we have some reservations about the nature of the unilateral links proposed (eg with the CDM), and the extent to which offsets generated via other schemes should be allowed into the NETS. For example, in our view offsets generated offshore as part of another scheme should only be allowed into the NETS if Australian offset credits generated under the NETS are given equal access to the international scheme in question. We are particularly concerned about the proposal that there be a unilateral link with the CDM that would potentially allow liable parties under the NETS to meet their entire obligation with Certified Emission Reductions (CERs) generated in developing countries.

The Taskforce's concern about a 'safety valve' for the carbon price appears to be focused only on preventing prices going too high. For investors in 100 year forestry offsets in Australia, a 'safety valve' to prevent price collapse is just as important. The Taskforce has seen fit to propose a price ceiling to protect permit buyers, but no price floor to protect offset sellers. As such, we believe a price collapse could be precipitated if unrestrained access to offsets from CDM projects is allowed. The Taskforce should appreciate that biosequestration investors are just as concerned about 'stranded assets' as other sectors. If the Taskforce determines to allow external credits (eg. CERs generated via CDM projects) to be used in the NETS, we believe that a ceiling of 20% should be placed on the extent to which liable parties can use offshore sources to meet their obligations under the NETS. This would retain the 'safety valve' sought by the Taskforce, but minimise the risk of stranded assets for those investing in offset projects located in Australia. This strikes an appropriate balance between using international schemes to maximise liquidity and cost-effectiveness, whilst ensuring that significant abatement happens in Australia rather than flowing to CDM destinations.

***General Support for the NETT proposals on Offsets:***

Timber Queensland supports the general thrust of the NETT proposals in relation to forestry offsets. Except on particular issues where the views expressed below differ, we support the view that the rules applying to the NETS for offset credits generated from forestry should be based upon those currently used in the NSW Greenhouse Gas Abatement Scheme.

## **An A-Z of other specific NETS design issues of relevance to Timber Queensland:**

**Additionality:** We support the approach suggested by the Taskforce in relation to environmental and regulatory/legal additionality. TQ strongly opposes the application of tests for the financial additionality on the basis that it is impractical, that it will discourage investment in biosequestration, and that it will encourage earlier harvest by owners of existing plantations. We also believe that all plantations that meet the Kyoto Article 3.3 test should be eligible to generate offset credits—irrespective of the financial additionality question. If this approach is not taken the sequestration that they would otherwise provide after the commencement of the NETS may not occur at all because the value accrues to the government not the private investor. This will alter the decisions of the forest owner in favour of earlier harvest that would otherwise be the case (ie. reducing sequestration below assumed BAU baselines).

**Carbon Pooling:** We strongly support the notion of carbon pooling such that forest owners can collaborate in order to provide an assured amount of sequestration notwithstanding the harvest of particular trees. Carbon pooling arrangements should be as flexible as possible in order that forest growers of all sizes should be able to participate in the scheme

**Conversion:** In line with our sustainability policy, TQ does not believe that plantations on land converted from remnant native forest since 1990 should be eligible to generate offsets under the NETS.

**Eligibility:** We agree with the Taskforce that in the first instance, offset credits should only be eligible from the forestry sector where they are generated on land in compliance with Article 3.3 of the Kyoto Protocol—that is, land cleared before 1990 and remaining clear in 1990.

Further consideration needs to be given to the eligibility of carbon sequestered by timber plantations established on land cleared prior to 1990, and environmental plantings that build on existing limited vegetation cover, which do not meet the strict 'cleared land' definition required by Kyoto Article 3.3. TQ believes that these measures should be considered for inclusion in the NETS at a later date.

**Force Majeure and Make Good Provisions:** In relation to force-majeure circumstances associated with fire, pests, severe weather events etc—we believe that the 'make good' options available to the seller of offsets should be as flexible as possible. That is, the seller should be able to buy offset credits on the open market, and not necessarily from another provider of forest offsets (except where this is an explicit requirement between the buyer and seller). In so far as a seller is unable to 'make good' we agree with the Taskforce approach that the 'Scheme Regulator' should revert to a financial assurance (bond or insurance policy) provided by the seller.

**Legal:** Queensland has enacted legislation recognising the ownership of carbon sequestration rights in relation to biosequestration. These are known as Natural Resource Products and are dealt with in Section 6b of the Forestry and Land Titles Act. It is important that there is national consistency in the way carbon rights are treated between the different states and territories to avoid any competitive disadvantage in the offsets market.

**Limits on Offsets:** Under the Kyoto Protocol, biosequestration offsets generated through the CDM and JI are allowed to make a contribution of up to 1% of a country's baseline emissions towards meeting binding targets. This type of limit addresses the concerns of some organisations that these offsets could be used by industry to avoid abatement. In the case of the NETS, we do not believe that the forestry offsets market

will be large enough to justify this concern, particularly if, as TQ recommends, a cap of 20% is applied to the use of CERs and other such offsets generated offshore.

Native Forestry and Land Clearing: We acknowledge that eligibility to generate offsets probably needs to be limited to plantations at this stage, including revegetation activity (see not-for-harvest plantings). However, we believe that with the development of appropriate methodologies, avoided land clearing and native forest management should be eligible. TQ endorses the proposal that administrative processes be developed to enable additional abatement initiatives to be considered for inclusion in the NETS at a later date.

Not-for-harvest Plantings: TQ sees significant potential to enhance natural resource management objectives and greenhouse sinks in Queensland through the establishment of permanent sinks. Such planting—alongside agriculture and timber plantations—should also be eligible to generate offsets under the NETS;

Permanence: TQ agrees with the Taskforce view that the 100 year definition of permanence in relation to biosequestration credits generated under the NSW and ACT GGAS is appropriate to use in a NETS;

Risk Management: We agree with the Taskforce approach to the various risks that can compromise the provision of offset credits from forestry—fire, pest, disease, climate variability—and the need for prudence against these risks in the calculation of abatement.

Seller Liability: We appreciate the preference of the Taskforce that providers of offsets should be liable for compliance with the rules relating to offset credits. This will help serve to ensure the environmental integrity of the offsets market.

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