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Climate Change Authority (CCA)

Consultation Paper – 2020 Review of the Emissions Reduction Fund

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The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission on the Climate Change Authority's (CCA) 2020 Review of the Emissions Reduction Fund (ERF) Consultation Paper.

Executive summary

Trees are a sustainable biological resource that produce renewable wood and paper products, including emerging new and innovative products such as biomaterials, biochemicals and bioenergy. They also provide multiple benefits, including the carbon stored over time in the growing forests, the forest soils and renewable wood products, as well as economic activity, jobs and environmental co-benefits. 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.

Our forest industries can play a significant role in reducing emissions, transitioning the Australian economy to a carbon constrained future, and assisting the Government achieve national targets – while having a positive impact on regional Australia jobs, communities and economic growth.

The significant potential for our forest industries 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 reduction from our renewable forest industries 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 renewable heat and biofuels), thereby displacing a total reliance on fossil fuels.

The ongoing efforts of the Government to reduce the complexity and red tape in the ERF are acknowledged and in many ways the ERF has been successful. However, areas that need further reform and streamlining include:

- provision for industry to develop methodologies.
- increased resourcing of the Emissions Reduction Assurance Committee (ERAC) to rapidly approve methodologies.
- expand the scope of the ERAC to include economic assessment of methodologies, reducing the number of theoretical-only methodologies down to those methodologies that are practicable and implementable.
- projects that yield multiple co-benefits need to have a focus and be incentivised in the ERF.
- coupling carbon price points with carbon abatement contract lengths and associated requirements including permanence so the price incentivises potential projects including industrial and land-sector ones.
- the 25-year crediting period does not support the development of long rotation plantations. Longer crediting periods would increase the implementation of these projects.
- burdensome transaction and audit costs reduced in complexity and cost.
- effort for key staff to apply for and manage carbon contracts.
- increase flexibility of growth model assumptions to maximise potential growth parameters and associated carbon.
- optionality of carbon sequestration data yield supplied under the plantation methodology to reflect actual timber volume data from growers instead of using FullCAM;
- overly burdensome make good provisions and risk; and
- minimal recognition of the scale and complexity of industrial processes.

Many of the King Review recommendations, made in their Feb 2020 Report, if effectively implemented would be useful in improving ERF uptake and outcomes.

An example of existing methods that would see more projects registered by our forest industries, if the issues above were addressed, would be the industrial and energy efficiency and plantation methods.

Potential reforms include streamlining methodology development processes; utilising a Government-funded auditor; increasing crediting period for long-rotation plantation projects; developing cost effective audit fast-tracks; reducing burdensome transaction costs; and increasing flexibility of the framework to better reflect industrial processes and growth model assumptions.

Benefits of planting trees

AFPA has been active in promoting the many environmental and soil conservation benefits of sustainable forestry practices on public lands, farms and in water catchments. The integration of sustainable forestry practices can take many forms, including timber belts, plantations, wide-spaced tree plantings and the sustainable management of new and existing stands of native vegetation and regrowth, including Indigenous forest management.

Integrating trees and related industries into the Australian agricultural and natural resource management landscape, these sustainable practices assist with:

- reducing salinity
- improving water quality
- enhancing habitat restoration/revegetation (e.g. mine sites)
- continual improvement of soil management
- waste-water management

Incorporating commercial tree planting and forestry activities into farming systems also:

- provide farm income diversification (e.g. renewable timber products)
- improve agricultural productivity enhance carbon sequestration and lower net carbon emissions
- generate soil conservation and water quality benefits

New forest plantation investment and the ERF

Carbon storage in forest plantations has helped Australia meet its greenhouse emissions reduction goals. Converting land to forest from 1990 has removed over seven million tonnes of carbon dioxide from the atmosphere (Australian Government, 2016). The area of plantations in Australia expanded by around 1 million hectares between 1994 and 2009. However, since 2009, due to global market conditions, tightening of credit requirements, and the time-cost of money of the long investment in new forest plantations there has been little to no new traditional plantation development in Australia.

Analysis by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) in 2015 suggests that this downward trend in new plantations was likely to continue, given policy and market settings (Burns et al, 2015), indicating:

- establishment of new plantations in most regions of Australia is unlikely to occur in the ordinary course of events
- the area of plantations in Australia is likely to decline in the short to medium term
- these changes will have a negative impact on Australia's efforts to reduce greenhouse gas emissions

In response to this analysis, the Government developed two ERF forestry methods that provide a mechanism to increase carbon storage through the establishment of new forest plantations, in existing plantation estates through transition from short-rotation plantation forests to long rotation plantation forests, and in new farm forestry projects.

CCA's Consultation Paper questions:

3. OVERALL PERFORMANCE OF THE ERF

How is the ERF performing overall and what parts of the ERF could be improved and how?

The ongoing efforts of the Government to reduce the complexity and red tape in the ERF are acknowledged and in many ways the ERF has been successful. However, areas that need further reform and streamlining include:

- provision for industry to develop methodologies.
- increased resourcing of the Emissions Reduction Assurance Committee (ERAC) to rapidly approve methodologies.
- expand the scope of the ERAC to include economic assessment of methodologies, reducing the number of theoretical-only methodologies down to those methodologies that are practicable and implementable.
- projects that yield multiple co-benefits need to have a focus and be incentivised in the ERF.
- coupling the carbon price points with carbon abatement contract lengths and associated requirements including permanence so the price incentivises potential projects including industrial and land-based ones.
- the 25-year crediting period does not support the development of long rotation plantations. Longer crediting periods would increase the implementation of these projects.
- burdensome transaction and audit costs reduced in complexity and cost.
- effort for key staff to apply for and manage carbon contracts.
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- overly burdensome make good provisions and risk.
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An example of existing methods that would see more projects registered by our forest industries, if the issues above were addressed, would be the industrial, energy efficiency and plantation methods.

Potential reforms include streamlining methodology development processes; utilising a Government-funded auditor; increasing crediting period for long-rotation plantation projects; developing cost effective audit fast-tracks; reducing burdensome transaction costs; and increasing flexibility of the framework to better reflect industrial processes and growth model assumptions.

AFFPA submitted detailed comment to the Expert Panel examining opportunities for further carbon abatement Discussion Paper (i.e. the King Review) and notes the guiding principles outlined in the King Review, that include:

- Projects that reduce the stock of greenhouse gases in the atmosphere should be considered for an incentive if the actual or potential carbon benefit exceeds the incentive cost.
- Policy should be designed to favour economically productive activities or activities where there are co-benefits.
- Policies and institutions should be technology-neutral and complementary.
- Participation will be encouraged if solutions are conceptually and administratively simple, with an emphasis on balanced sharing of risk and minimising transaction costs.
- Technologies are at different stages of technical and commercial readiness, and incentives/ instruments should be designed to reflect this.
- Policies should be designed and administered in a participatory and transparent manner.
- Policy responses should be coordinated between federal, state and territory governments and undertaken in collaboration, where possible, with state and territory governments

Many of the King Review recommendations, made in their Feb 2020 Report, if effectively implemented would be useful in improving ERF uptake and outcomes. These include:

- Allow certain ERF methods to award ACCUs on a compressed timeframe.
- Create tailored small-scale ERF methods for particular types of agricultural projects, including shelterbelts.
- The Clean Energy Regulator should continue its work on optional delivery contracts under the ERF to reduce price uncertainty and risk for proponents by giving them the right (but not the obligation) to sell ACCUs at a set, pre-determined price during a specified period.
- Facilitate 'method stacking', where multiple ERF projects are taken on the same property.
- Establish a new process to provide third parties with the opportunity to propose and prepare ERF methods.
- Establish a pilot method program to test new method ideas and expedite method preparation.
- Undertake consultation on amending the water requirements that apply to farm forestry under the ERF.
- Develop and publish a formal policy governing the prioritisation and development of ERF methods.
- The Clean Energy Regulator should continue its efforts to streamline ERF audit requirements at an administrative level and to explore the potential to use "big data" as an alternative to more traditional audit processes.

4. MAINTAINING INTEGRITY AND OPTIMISING GOVERNANCE OF THE ERF

Do you have any views on the operation of the off-sets integrity standards and the additionality provisions as key principles supporting the integrity of abatement under the ERF?

Newness as defined under the existing CFI Act should be changed to be applied at the application of a project registration opposed to the declaration of a project. Forestry industries require a long lead time for planning purposes and the current definition does not support this.

What are your views on method prioritisation, method development and method review processes in the ERF? Please include any thoughts on how these processes could be improved, including how the expertise of industry could be better incorporated.

In addition to the previous comments, clearer guidelines should be in place to guide engagement from stakeholders on method development. It is unclear whether the method development focus is on supporting new method development or primarily on improving the uptake of existing ones. There are some gaps in the current portfolio of methods that may result in significant abatement not being realised. For example:

- Recognition of reduced emissions by new greenfield development of a bioenergy plant replacing energy generated from fossil fuel sources.
- recognition of carbon stored in new building projects (residential and commercial) constructed from renewable timber products.

5. MANAGING RISKS TO ABATEMENT

What are your views on the suitability of the permanence period discount? What are your views on the suitability of the risk of reversal buffer?

Both the permanence period discount and risk of reversal buffer need to be refined to ensure they do not act as a restriction to potential new project applications.

Participation would be increased if the carbon abatement contract period were matched with an extension of the modelled sequestration period and the 25-year permanence period in the revegetation and plantation forestry methodologies.

What are your views on the risks posed to land-based abatement and the adequacy of ERF and project-level risk mitigation measures?

As per the King review, policies in this area should be designed to favour economically productive activities or activities where there are co-benefits.

Examples of review/reform areas in existing methods:

- Potential new plantings of African Mahogany in the Northern Territory NPI region and Indian Sandalwood in other NPI regions, are currently excluded under the existing ERF plantation forestry method. 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 existing ERF plantation forestry method.
- The existing Farm Forestry ERF method 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. This method has been in place since 2014 with very little uptake to date. 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). This is a major constraint to uptake of the method and inequitable with other vegetation methods. The method should be reviewed to remove the constraint.

What are your views on the risks to contracted abatement resulting from ERF projects being concentrated geographically and by method type?

The potential risks of extreme weather events such as cyclones and bushfires are obviously difficult to predict. Effective ways of mitigating these types of risk include undertaking known operations with known species, holistic planning and risk mitigation operations, and again as per the King review policies should be designed to favour economically productive activities or activities where there are co-benefits (i.e. farm forestry and plantation forestry). The development of low risk carbon sequestration plantings should also have a focus. Low risk carbon sequestration plantings would include Mallee plantings which have high fire regenerative capacities.

6. OPPORTUNITIES FOR ENHANCING OUTCOMES

What role could the ERF play in future economic recovery efforts?

The extent of the economic and social impacts caused by COVID-19. But we see that there are two significant and interrelated challenges and one big opportunity for Australia post CoVid-19:

- restoring the economy post-CoVid-19
 - addressing climate change as the country transitions to a low emissions economy
- and**
- how do we support our renewable forest industries to play a significant role in reducing emissions while having a positive impact on regional Australia jobs, communities and economic growth

The ERF can make a significant contribution to post-COVID economic recovery if appropriate changes and reform can be made to facilitate participation, project uptake, and leverage greater private investment. With governments likely to be more constrained financially post CoVid-19, private investment and capital will be necessary to ensure a sustainable pathway for the ERF and, more broadly, a transition towards a low emissions economy.

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 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 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.

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.
- 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 to ensure that industry can take advantage of the opportunities to diversify and value-add, including by commercialising its Australian innovations.

Should the ERF more explicitly address climate resilience and impacts? If so, how?

In June 2018, the Australian Forest Products Association (AFPA) launched "*18 by 2030 – Forest Industries help tackle Australia's climate change challenge*" which lays the foundation for how our renewable forest industries can further contribute to tackling climate change.

The initiative outlines how Australia's forest industries can remove an additional 18 million tonnes of CO₂ equivalent per year from 2030 (on top of the carbon already stored by our forests), with the right policy settings. The 18 by 2030 climate change challenge document can be found [here](#) and the associated 18 by 2030 website with more information is [here](#).

Australia's forest industries can remove over 18 million tonnes of CO₂-e per year by 2030, by:

- **Building Block 1:** Storing carbon in new forest plantations.
- **Building Block 2:** Replanting existing forest plantations to maximise on-going carbon storage.
- **Building Block 3:** Increasing the use of wood products in the construction of new detached residential houses, multi-rise apartment and commercial buildings to offset emissions.
- **Building Block 4:** Reducing emissions from our processing and industrial facilities by being more energy efficient and using renewable bioenergy (both electricity and renewable heat) instead of fossil fuels.
- **Building Block 5:** Reducing emissions in transport by replacing fossil fuels with renewable biofuels.
- **Building Block 6:** Reducing emissions by supporting the use of sustainable biomass for cofiring in existing coal fired power stations.

This ambitious but important goal can only be achieved through the right mix of policies (detailed in the 18 by 2030 initiative) across all levels of government to maximise the carbon-storing and emissions reduction potential of our renewable forest industries.

Is there a need for enhanced guidance on how to manage ERF projects for multiple benefits? If so, should this be part of the ERF or complementary programs and policies?

There is a strong need for enhanced guidance on how to manage, and actual provisions to incentivise ERF projects for multiple co-benefits. Incorporating measures of the multiple co-benefits of a project and this should be a direct part of the ERF to better incorporate the multiple benefits of these projects. This was also outlined in the recent King Review.

The main benefits of a sectoral approach and co-benefits can include:

- spreading the portfolio risk.
- generating long term domestic structural capacity across key sectors.
- recognising the environmental stewardship benefits to the community of landholders.
- delivering a range of low-cost options with targeted multiple-benefits (including environmental and socio-economic).

This would facilitate a range of technology options and land-based activities which can deliver cost-effective outcomes for emissions reduction 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, increased biodiversity and regional economic development and jobs.

A scientifically valid and certified assessment of temporal biodiversity values of ERF land sector projects should be able to be added to projects to accurately quantify biodiversity levels and attract a premium for projects that deliver improvements. There are existing frameworks that could be readily applied to ERF projects that facilitate scientifically robust comparison of

projects undertaken anywhere in Australia, providing a basis for buyers to value co-benefits. For example, Accounting for Nature allows for comparison of environmental assets using an independently audited 100-point score known as an Econd. This approach is already being applied to land sector carbon projects funded by Queensland's Land Restoration Fund which is paying proponents a premium for projects that deliver co-benefits. In addition, periodic measurement of Econd scores provides readily intelligible information to assist land managers to improve practice and ultimately drives efficiency of project delivery.

AFPA urges further investigation into the concept of a sectoral approach in which the CER allocates a proportion of the ERF investment into different emissions reduction (or technology) classes to target the production of multiple and co-benefits.

A focus on co-benefits in emissions reduction policies is also being advocated by [Climate Proofing Australia \(CPA\)](#), of which AFPA is one of the founding members. CPA is an industry and conservation led network of organisations committed to advancing the role of farming, forestry and conservation in meeting Australia's emissions targets. This cross-sector collaboration seeks to work together in an unprecedented manner to manage land in ways that reduce the impact of climate change on people, nature and economies. The founding members of the alliance are Greening Australia, the Australian Forest Products Association, the Red Meat Advisory Council, and Farmers for Climate Action.

Our renewable forest industries in Australia stand ready to participate in the ERF and assist the Government's objectives of reducing emissions and at the same time underpin jobs, economic growth and vibrant regional communities.

Any further queries on this submission please contact AFPA on (02) 6285 3833.

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the public and other stakeholders on the sustainable development and use of Australia's forest, wood and paper products.

The forest products industry is one of Australia's largest manufacturing industries with an annual turnover around \$24 billion. It contributes around 0.5% to Australia's gross domestic product and 6.6% of manufacturing output (see [here](#)). Around 80,000 people are directly employed along the industry value chain with a further 100,000 jobs supported through flow-on economic activity.