



Climate Change Group
Department of the Prime Minister and Cabinet
emissionstrading@pmc.gov.au

1 December 2007

To Whom It May Concern,

Please find below Forest Enterprises Australia Ltd's submission to the Australian Government's (Department of the Prime Minister and Cabinet) discussion paper - *Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme* (September 2007).

Contacts for this submission are below.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Penny Baalman', on a light green background.

Penny Baalman
Manager Climate Change
Forest Enterprises Australia Ltd
233B Charles Street
Launceston, TAS, 7250

Submitters:

Forest Enterprises Australia Ltd

Author: Ms Penny Baalman, Manager Climate Change, FEA

Contact: Mr Mike O'Shea, General Manager Business Development, FEA 0448 389 930

Forest Enterprises Australia Ltd ACN 009 553 548
Tasmanian Plantation Pty Ltd ACN 009 560 463
FEA Timber Pty Ltd ACN 056 534 448

HEAD OFFICE
PO Box 733, Launceston TAS 7250
233B Charles Street, Launceston TAS 7250
T (03) 6334 7811 F (03) 6334 4660

NSW & QLD OPERATIONS
PO Box 6153, South Lismore NSW 2480
6 Carson Street, Goonellabah NSW 2480
T (02) 6625 5600 F (02) 6624 7219



Submission

Forest Enterprises Australia Ltd

Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme (September 2007)

Early Abatement Incentives Discussion Paper

Introduction

Forest Enterprises Australia Ltd (FEA) is a publicly listed company and a leading forestry and forest products business that plans to be a provider of reforestation-based offsets.

FEA welcomes the introduction of a national emissions trading scheme in Australia. With the right incentives and mechanisms in place for dealing with reforestation projects, Australia is well positioned to be a leader in defining how to allow for their inclusion within an emissions trading scheme.

However it needs to be acknowledged that dealing adequately with reforestation projects is complex, and specific project rules can strongly influence the degree to which there will be adequate incentive for parties to invest in the planting of forests as sinks.

The following comments relate to the those aspects in the discussion paper regarding suggestions to providing incentives for new, additional abatement leading up to the commencement of the emissions trading scheme.



POSITIVE INCENTIVES TO UNDERTAKE ADDITIONAL ABATEMENT

3.1 Standards for abatement recognised by the scheme

Issues for stakeholder consideration

It is proposed that credits only be provided for activities that represent abatement that has actually occurred, is additional, permanent, measurable, and verifiable.

Comment

FEA endorses the five core standards of environmental integrity for abatement activities. These standards are crucial in allowing for the creation of credible and fungible offsets within an Australian emissions trading market. Meeting these five core standards is also crucial in allowing for the recognition of Australian offsets in future international linkages to other schemes. The aspects of *real* and *permanent* are of particular importance to reforestation projects.

Recent scrutiny within the voluntary market has highlighted the importance of offsets to be real and hence credible, and this is especially relevant to reforestation projects.

The trading of *ex ante* credits from projects is understandable given the relatively low value of voluntary credits, the considerable costs involved with reforestation and the simplification of sales that *ex ante* transactions allow.

However only actual, realised, *ex post* crediting should be allowed in any rigorously maintained emissions trading scheme. This provides assurance to the buyers (primary and secondary) of actual abatement as well as providing appropriate incentives for growers or pool managers to manage and maintain their carbon store in the long-term.

Non-permanence is also an issue that is key to ensuring that removal enhancement projects are equivalent to emission reduction projects, and represent a real benefit in regards to making long-term and hence effective reductions to the levels of carbon dioxide in the atmosphere.

3.2 Eligible activities

Issues for stakeholder consideration

It is proposed that there be no restriction on the types of activities that can earn credits prior to 2011 for use in the emissions trading scheme, provided they represent abatement that is additional, has actually occurred, and is permanent, measurable, and verifiable.



It is proposed that early action credits be generated from eligible projects for abatement after 3 June 2007 until the commencement of the scheme due in 2011.

Similarly, it is proposed that offset credits for use in the emissions trading scheme can be generated from eligible projects for abatement after 3 June 2007. To be eligible, it is proposed that projects would need to be established after 3 June 2007.

Abatement projects could only be approved following final decisions as to eligibility of activities for offsets or early action credits for use in a future emissions trading scheme.

Comment

FEA considers it an appropriate feature of the proposed trading scheme to place no restrictions on the types of activities that can potentially earn credits.

It is also considered appropriate to provide immediate incentive for the establishment of offset projects through allowing the generation of offsets from 3 June 2007.

Project design, financing, implementation, and finally credit generation timeframes for offsets can take many years, especially for reforestation projects. Allowing incentive immediately will enable such projects to begin as soon as possible.

In regards to projects being eligible only if established after 3 June 2007, it is understandable that using the scheme announcement date as an eligible project establishment or commencement date is a useful means of excluding potential 'free riders/hot air' or non-additional abatement activities.

However numerous parties have been investing in reforestation projects largely on the basis of carbon credit returns for many years, certainly this is the case from 2000 onwards, and especially within NSW who established an emissions trading scheme that allowed for the creation of offsets from reforestation projects in 2001.

With both the above and international consistency in mind, it would seem most appropriate to be in line with the Kyoto Protocol's Clean Development Mechanism and Joint Implementation project eligible start dates of 1 January 2000. This is also largely adopted as an appropriate project start date for the various greenhouse gas programmes in both operation and design around the world, which then facilitates international transferability, both into and out of Australia.



This is an important consideration in regards to linking with other programs in the future as most programs allow reforestation projects that were established since either 1 January 1990¹ or 1 January 2000² to be eligible within their programs.

It is appropriate that offsets can only be generated from 3 June 2007 (or from the time projects are approved) onwards. However it is suggested that reforestation projects that commenced after 1 January 2000 and that meet all other eligibility requirements be eligible to generate offsets. This would still enable the eligible start year to be an effective form of additionality screening, allowing for international consistency but not disadvantaging early movers.

It is considered appropriate that projects only be approved following final decisions on eligibility of activities.

3.3 Administrative arrangements

3.3.1 Initial arrangements – approval via Greenhouse Friendly

Issues for stakeholder consideration

It is proposed that the Australian Government's Greenhouse Friendly programme provide the initial administrative mechanism for approving offsets and early action credits for use in the emissions trading scheme.

It is proposed that the existing Greenhouse Friendly protocol for new forest offsets be used to assess eligibility following any Government decision, but be reviewed in 2008.

Comment

Given the Greenhouse Friendly programme's experience in administering abatement projects it is considered appropriate that the programme provide the initial administrative mechanism for approvals.

It is assumed that 'protocol for new forest offsets', refers mainly to the *Greenhouse Friendly Guidelines* (August 2006) and more specifically the green shaded sections relevant to reforestation projects, and incorporates the more recent *Greenhouse Friendly Forest Sink Abatement Projects* (2007) booklet and the *Guidance on Additionality for the Approval of Abatement Projects under the Greenhouse Friendly Initiative* (2007).

¹ For example the NSW Greenhouse Gas Abatement Scheme, the NZ Permanent Forest Sinks* Initiative, the NZ Emissions Trading Scheme, the Chicago Climate Exchange, the (US) Georgia Carbon Sequestration Registry, the Californian Climate Action Registry* (and hence potentially the Californian Emissions Trading Scheme).

² For example the Kyoto Protocol's Clean Development Mechanism and Joint Implementation (and hence potentially the European Union Emissions Trading Scheme).



In regards to the proposed use of these documents in assessing eligibility, a number of suggestions would be made. The main aspects regarding eligibility for reforestation projects include meeting the definition of reforestation and requirements regarding additionality.

Meeting the definition of reforestation

Within the *Greenhouse Friendly Guidelines* with respect to eligibility in meeting the definition of reforestation, the guidelines note that the remote sensing capability of National Carbon Accounting System can be used to establish the state of land cover in 1990.

It is suggested that requirements specify that project developers can elect to use more accurate means of determining land use change such as through using aerial photography, and guidelines could be included aimed at ensuring interpretation is standardised and repeatable.

This would be in line with international norms such as described with the Clean Development Mechanism's *Procedures to Demonstrate the Eligibility of Lands for Afforestation and Reforestation Project Activities* EB 35 Annex 18 (2007), which requires the reliable discrimination of forest and non-forest land according to the thresholds adopted by the country when using aerial photography or satellite imagery.

Additionality

Currently the Greenhouse Friendly programme applies what is essentially the Clean Development Mechanism's additionality tool (for non A/R projects) as the means of testing/screening for additionality.

There are differences between the additionality tool applied within the CDM for use in emission reduction projects and the tool that can be applied to reforestation projects. One of the main differences used to be that the A/R additionality tool did not incorporate a common practice analysis step.

While it is understood that a common practice analysis screen can be a highly effective and appropriate form of additionality test for some project types, it is suggested that it is not a useful assessment tool for reforestation projects and should not be included for reforestation projects.

The main reason for this is that the types of reforestation or tree planting activities that can occur in the landscape are diverse, one tree planting regime may well bare no comparison on an enterprise level (and in its ability to store carbon long-term) compared to neighbouring tree planting activities.



Further, obtaining the level of information to undertake this step in a manner that is meaningful is highly problematic, as it requires obtaining commercially sensitive details from direct competitors.

As a general comment it is suggested that alternate means of additionality tests be considered other than the CDM additionality tool, and further that additionality tests be tailored to best screen projects on a project type specific basis.

It is widely acknowledged by many participants within the CDM that additionality tests are subjective and carry with them perverse outcomes including not achieving least cost abatement (through favouring those projects that are particularly financially unviable), and increasing the relative risk associated with approved projects (from favouring those projects that face barriers). It is a process that is subjective, costly, time consuming and substantially reduces potential activity in offset creation as a result of these disincentives and especially their associated costs.

It also creates considerable uncertainty during the project design phase, reducing investment confidence.

It is suggested that one means could be in line with those recommended by the International Emissions Trading Association in its submission to the UNFCCC Secretariat in response to the Clean Development Mechanism Executive Board's call for public input on additionality testing, dated 31 July 2007. In their submission they suggested consideration of applying sectoral benchmarks.

Alternately application of the ISO 14064-2 standard would move away from CDM additionality tool issues yet still requires the adequate justification of the baseline scenario (and hence additionality).

As a final comment on additionality, it should be noted that reforestation projects are substantially different to all other types of projects in this regard due to two aspects in particular.

Firstly their very definition incorporates the requirement to be different to what was otherwise occurring (a land use change from non-forest, or negligible carbon storage, to forest, or substantial carbon storage).

Secondly, the requirement to address non-permanence and the subsequent application of long-term storage crediting of itself provides a completely objective additionality screen where only those projects that move beyond business as usual are able to generate offsets.

Other Issues

Comments are also provided in regards to aspects not specifically related to eligibility.



The comment was made at stakeholder presentations that as “providers know the forest protocol well, they would go with them”. While many potential providers do know the protocol well, there are a number of aspects in regards to the current rules for reforestation that have resulted in limited participation by reforestation project developers.

It is understood that a number of those issues are in the process of being resolved, and were largely a feature of a voluntary and non-legislatively backed programme. Two aspects worth noting include: -

- Project re-approval, which results in crediting uncertainty and is especially problematic for reforestation projects that have large upfront costs and long abatement periods.
- Compulsory use of the National Carbon Accounting Toolbox, when many potential participants will have the capacity (and incentive) to use more accurate accounting methodologies. Further the transfer of intellectual property through this process is a significant disincentive for potential participants.

The NSW GGAS and the Greenhouse Friendly programme’s approach to allowing crediting from reforestation projects for long-term storage only is considered an appropriate approach.

However it is suggested that a refinement be considered that more accurately reflects the relative contribution on a stand-by-stand basis, rather than a pool basis. This refinement would allow for the calculation of the component of long-term storage that is built up in the landscape under the assumption that the stand is part of a normal forest. Stands with longer rotation periods build up greater amounts of biomass.

This approach is equivalent to that put forward by various international experts as the average carbon stock approach. However it is considered that crediting on the average is not sufficient justification of itself, however what is established is the component of the forest that is accumulated and maintained in the long term, assuming multiple age class stands of the same type.

Justifications for adoption of such an approach include: -

- More accurately reflects an actual individual project’s (stand) contribution to ameliorating the greenhouse effect irrespective of ownership boundaries.
- Is fair to project developers of all sizes and hence facilitates small-scale participation.
- Allows a standardised and independent means for project developers to illustrate projections of generated offsets, facilitating confident investment.
- Greatly facilitates pool management arrangements with multiple participants.



The two most recent programmes to finalise rules for reforestation projects have both adopted this approach, the CarbonFix Standard and the Voluntary Carbon Standard.

3.3.2 Streamlining administration of offsets and early action credits

Issues for stakeholder consideration

It is proposed that streamlined protocols be developed for eligible early action and offset projects. Stakeholder feedback is sought on priority project activities for protocol development.

Comment

See comment below under 3.5 regarding generic standards applicable to any type of project activity.

3.4 National register for offsets and early action credit

Issues for stakeholder feedback

The Government proposes to develop as soon as practical a national offset register to track early action credits and offsets that could be recognised under the emissions trading scheme.

Comment

It is considered a key feature of any well-functioning emissions trading scheme to incorporate a register for credits to ensure the legitimate creation, trading, tracking and surrender against obligations and claims of offsets. Establishing a register as soon as practical will facilitate early trading including early voluntary trading of offsets leading up to the emissions trading scheme.

3.5 Developing offset standards for the emissions trading scheme

NB No issues for stakeholder feedback were put forward but comment is made.

Comment

The government has proposed to use the Greenhouse Friendly programme standards as the starting point for developing offset arrangements for the emissions trading scheme including for approving new offset protocols. Comment was also made in respect of not restriction eligible activities to those included in current international standards.



It is suggested that consideration is made of adoption of the ISO 14064-2 standard, *ISO 14064 Greenhouse Gases - Part 2: Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions and removal enhancements*. This standard was designed for use in both compliance and voluntary programs and deliberately did not try to distinguish between projects types. That is it is an open standard that is potentially applicable to any project type.

One of the benefits of considering adoption of ISO 14064-2 is that it allows for uniformity between different project types, more detailed sector-specific rules may be required, and this is especially true for removal projects. Their adoption would also facilitate international consistency and future linking.

3.8 Voluntary market access to offsets accredited for use in the emissions trading scheme

Issues for stakeholder feedback

It is proposed that participants in the voluntary market would have access to early action credits and offsets credited for use in the emissions trading scheme.

Comment

It is considered appropriate to allow offset credits generated within the emissions trading scheme to be available for use by voluntary participants. This is especially important in respect of reforestation projects, so that rigorously scrutinised, high quality credits are available for voluntary market use, increasing market confidence and with it voluntary participation and additional national reductions.